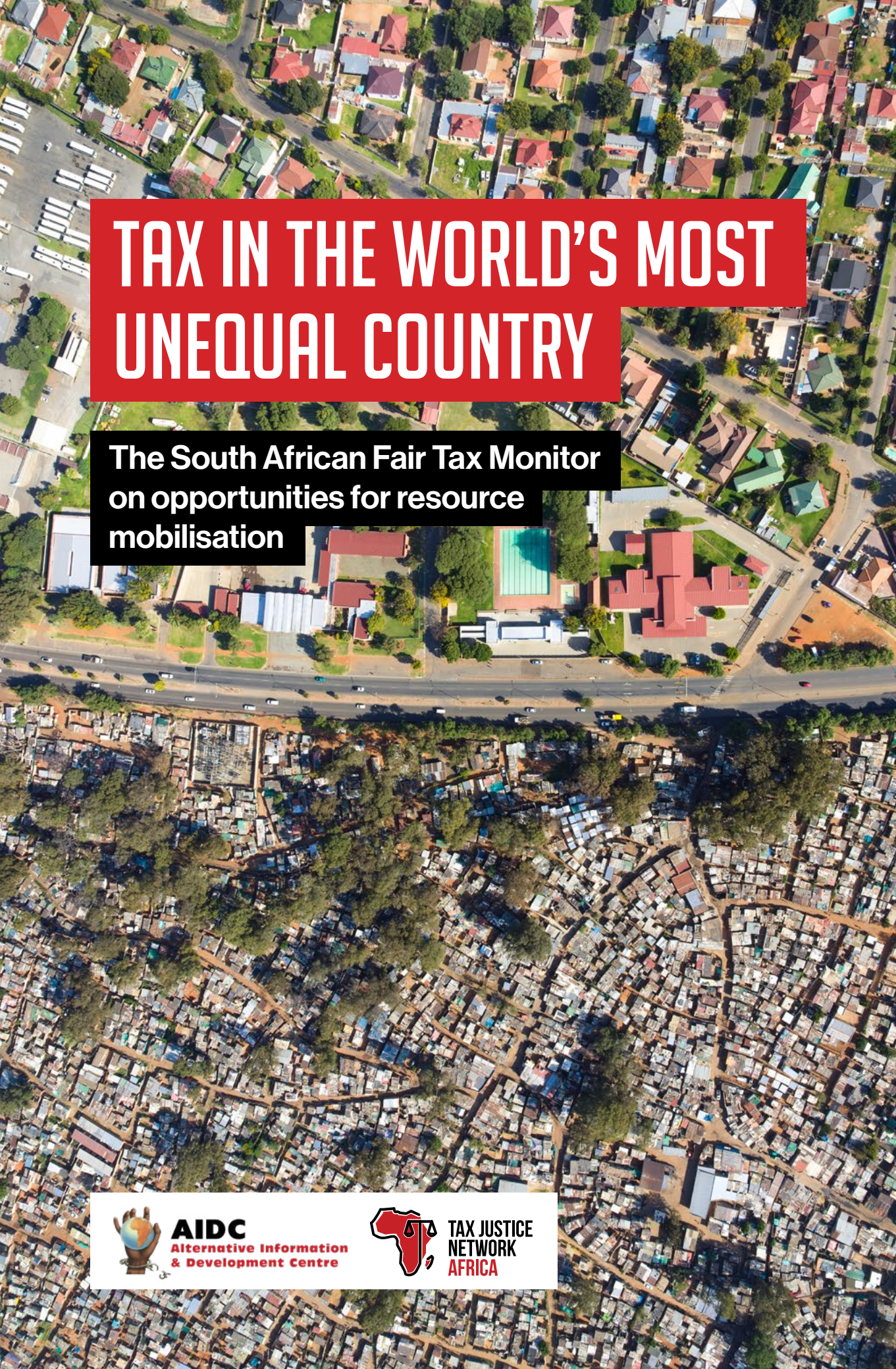




TAX IN THE WORLD'S MOST UNEQUAL COUNTRY

The South African Fair Tax Monitor
on opportunities for resource
mobilisation



AIDC
Alternative Information
& Development Centre



**TAX JUSTICE
NETWORK
AFRICA**



AIDC

Alternative Information & Development Centre

The Alternative Information and Development Centre (AIDC) works in support of and in collaboration with popular movements to promote and advance initiatives for socio-economic and ecological justice.

In a context of deepening socio-economic, political and ecological crisis, we contribute to enabling popular movements to advance a just transition based on human solidarity and the fundamental democratisation of society. Collectively, our mission is to contribute to rebuilding vibrant, autonomous, democratic and inclusive popular movements capable of advancing socio-economic and ecological justice.

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TERMS & ABBREVIATIONS

AIDC	Alternative Information and Development Centre	MNE	Multinational Enterprise
BBBEE	Broad-Based Black Economic Empowerment	MoU	Memorandum of Understanding
BEPS	Base Erosion and Profit Shifting	MTSF	Medium-Term Strategic Framework
CFC	Controlled Foreign Company	NMW	National Minimum Wage
CGT	Capital Gains Tax	PAYE	Pay As You Earn
CPIT	Comprehensive Income Tax System	PIT	Personal Income Tax
CSG	Child Support Grant	PPT	Principal Purpose Test
CSO	Civil Society Organisation	R&D	Research and Development
CTT	Capital Transfer Tax	SADC	Southern African Development Community
DRA	Double Tax Agreement	SARS	South African Revenue Service
DWYPD	Department of Women Youth and Persons with Disabilities	SDG	Sustainable Development Goal
ECD	Early Childhood Development	SEZ	Special Economic Zone
ETR	Effective Tax Rate	SIBH	School Infrastructure Backlogs Grant
FDI	Foreign Direct Investment	SRHR	Sexual and Reproductive Health Rights
FIRE	Finance, Insurance and Real Estate	STI	Sexually Transmitted Infection
FPL	Food Poverty Line	STT	Securities Transfer Tax
FTM	Fair Tax Monitor	TIPS	Trade & Industrial Policy Strategies
FTT	Financial Transaction Tax	UDZ	Urban Development Zone
GBV	Gender-Based Violence	UMIC	Upper-Middle-Income Country
GOS	Gross Operating Surplus	WHT	Withholding Tax
GRB	Gender-Responsive Budgeting	WTR	Withholding Tax on Royalties
GRBF	Gender-Responsive Budgeting Framework		
GRPB	Gender-Responsive Planning and Budgeting		
IFF	Illicit Financial Flows		
IMF	International Monetary Fund		
JSE	Johannesburg Stock Exchange		
LOB	Limitation on benefits		
MLI	Multilateral Instrument		

A country's tax system is an essential tool in financing growth and public spending while distributing a country's resources in a fair manner. South Africa is faced with complex crises of unemployment, poverty, inequality, and economic stagnation, all of which call on the state to use every resource at its disposal. Is South Africa's tax system at its limits, or can more be done?

INTRODUCTION

WHY CHANGE SOUTH AFRICA'S TAX SYSTEM?

South Africa is facing a complex set of socio-economic crises, characterised by economic stagnation and deindustrialisation, mass unemployment, increasing poverty, environmental degradation, and worsening infrastructure. There is a gradual breakdown of the social fabric, resulting in high levels of crime and violence, including gender-based violence. Today, key economic indicators paint a grim reality:

- An unemployment rate of 43.1%, the highest of any country;¹
- A before-tax Gini coefficient of 0.66, reflecting the greatest level of inequality of any country;²
- A carbon intensity of 0.56kg of CO₂ per \$ of GDP, the 9th highest of any country;³ and
- Average GDP growth of less than 1% per year over the past decade.⁴

This crisis has its origins both in the legacy of the apartheid-era South African economy, and the incomplete and uneven post-apartheid socio-economic transformation. Efforts to liberalise the economy in the 1990s bore some fruit in terms of short-term growth during the 2000s, when global terms of trade favoured South Africa. This was intended to lead to "redistribution through growth". However, this growth did not lead to meaningful redistribution nor structural transformation.

In the 2010s, the dream of liberalisation and redistribution-through-growth began turning into a nightmare. The collapse of commodity prices following the global financial crisis coincided with the decline

of key infrastructure such as electricity generation, freight rail, and ports, following years of underinvestment and failed attempts at privatisation, leading to deindustrialisation, stagnant growth, and increases in unemployment and inequality. This has been worsened by years of cuts to key public budgets and the implementation of hiring freezes across schools, hospitals, and clinics. South Africa is in dire need of redistribution and growth.

There are two critical demands for tax revenue in this context:

In order to respond to the current socio-economic crisis and address historical inequality, the state must not only maintain the current level of public services and social support, but undertake a significant expansion of both. This will incur significant once-off capital costs, such as in the construction of clinics and schools, as well as recurring costs, such as in the hiring of workers to staff these facilities, and in the expansion of basic income support grants.

However, South Africa's structural crisis requires more significant intervention. In order to restore economic growth and deal with mass unemployment in the context of climate change, the state must mobilise resources towards a growth and industrial development agenda which prioritises labour-intensive industries and promotes localisation and beneficiation, without worsening the climate crisis. Such an agenda should be broad-based and aimed at meeting the unmet needs of ordinary South Africans, rather than simply raising the GDP with no impact on people's lives (i.e. it should not be growth without redistribution).

The state is highly constrained in its options to finance this kind of investment. South Africa's debt burden has increased from 49.3% of GDP in 2015 to over 77% in 2025, with debt servicing costs consuming more revenue than the healthcare budget.⁵ The state is exploring alternative arrangements, such as concessional financing for a Just Energy Transition, as well as public private partnerships for public infrastructure and service provision. But these are problematic as they often come with conditionalities which deepen the commercialisation and marketisation of basic public services, such as water and electricity.⁶ There may be options to reduce the cost of debt without such conditionalities, but this is beyond the scope of this report.⁷

Taxation is the best way for any government to mobilise its domestic resources.

Ultimately, taxation is the best way for any government to mobilise its domestic resources. It does not lead to costly interest payments or conditionalities and, if done correctly, can also play a role in redistributing wealth in unequal societies like South Africa. Further, tax policy can influence economic behaviour in productive ways, such as by incentivising capital to be put towards productive investment, instead of sitting idle.

It is also important to note that momentum is building behind progressive taxation worldwide. In 2024, countries agreed on a terms of reference for a United Nations Framework Convention on International Tax Cooperation, while South Africa was one of the signatories of the Brazil G20 declaration in the same year, where countries committed to cooperate on taxing the super-rich.

In this publication, AIDC argues that it is critical to enhance the progressivity of the tax framework and to increase taxes to raise more revenue that can contribute to expanding social spending and for investing in transitioning to a low-carbon economy. We show that there are instruments through which more revenue can be raised.

However, taxation is not simply about raising more revenue - fundamentally the tax system has to contribute to reducing inequalities. In the South African context, given how the concentration of wealth has increased in post-Apartheid South Africa, and how most of this wealth has been accumulated through the inhumane system of Apartheid, there are both economic and moral imperatives to redistribute wealth from the rich to the poor.

WHAT IS THE FAIR TAX MONITOR?

The Fair Tax Monitor (FTM) is a research and advocacy tool developed by Oxfam Novib and Tax Justice Network–Africa, in collaboration with a range of partners. The FTM project was started in December 2014, and has resulted in a number of reports from countries in Asia, Africa and Latin America. Consisting of a common research methodology covering almost all aspects of national tax policy, administration, and enforcement, the FTM aims to produce a comprehensive assessment of a country's tax framework, identifying opportunities for reforms which can contribute to a fairer tax system.⁸

The Fair Tax Monitor Working Group has defined a fair tax system as follows:

1. “Progressive and serves as a mechanism to redistribute income in a gender responsive way;
2. Allows to raise sufficient revenue to perform government functions and provide high-quality essential public services;
3. Refrains from and eliminates tax exemptions and incentives to the elite (individuals and corporate); and
4. Tackles causes of illicit capital flight, tax evasion and avoidance by multinational companies and the wealthy.”⁹

The Alternative Information and Development Centre (AIDC) has produced a significant amount of analysis on South Africa's tax system, with a particular focus on personal income taxation and corporate tax evasion.¹⁰ This work has continued in line with the key objectives of maximising public revenues while combating inequality and unemployment. In 2024, we began working on a South African report using the Fair Tax Monitor research methodology, seeing this as an opportunity to update and consolidate past analysis, while expanding our research into other areas of the tax system. Our ultimate objective is to provide a wide-ranging report on all possible options for reforming the tax system towards greater revenue mobilisation and fairness, in the context of South Africa's intensifying triple crisis of unemployment, poverty, and inequality.

Our ultimate objective is to provide a wide-ranging report on all possible options for reforming the tax system towards greater revenue mobilisation and fairness, in the context of South Africa's intensifying triple crisis of unemployment, poverty, and inequality.

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HOW TO READ THIS REPORT

This report is as comprehensive as possible, covering almost all aspects of South Africa's tax system. Through our analysis, we have developed recommendations to enhance the fairness and progressivity of the tax framework for each section. However, we should make one important note at the outset: tax is shaped by both political decisions and technical processes. There is no single objective measure of an “effective” tax policy. Empirical research can tell us, for example, how much revenue a tax is likely to raise, how equitably the burden is shared, or how efficiently it can be collected. But deciding which objectives to prioritise — whether revenue, redistribution, or investment — is ultimately a political judgement. Most of our proposals therefore combine evidence about likely outcomes with

political arguments about how a policy may contribute towards the kind of a world we want to achieve.

That said, this report was not written with the expectation that you would necessarily share our exact vision of what a fair society looks like, nor agree with every tax policy proposal. Instead, we have aimed to produce a “menu of options” and encourage you to read and engage with the elements of analysis and proposals you find useful.

Here are a few ways to read, depending on your time and interests:

If you have ten minutes...

...just read the chapter titles and the recommendations. This will give you a quick, high-level overview of the main arguments and might just make you curious enough to dive a little deeper.

If you have an hour...

...find the section that speaks to you. If you've ever wondered about any of these questions, just jump straight to the chapter that answers it:

If you're wondering...

■ ***“Am I overtaxed?”***

Go straight to Chapter 1 to see the big picture of South Africa's tax system.

■ ***“What are the richest of the rich really paying?”***

Head over to Chapter 2 to see how taxes deal with income and wealth inequality.

■ ***“Are big companies paying their fair share?”***

Chapter 3 is your guide to corporate tax, incentives, and the global race to the bottom.

■ ***“Where is all the money going?”***

If you suspect there's more to the story, Chapter 4 pulls back the curtain on illicit financial flows and tax havens.

■ ***“Why is SARS not working properly?”***

Jump to Chapter 5 to understand what's happened to our tax collection service and what change is needed for it to succeed.

■ ***“Does the government really need any more money?”***

Dive into Chapter 6 to connect government revenue with public spending and debt.

If you have time and patience to read through...

...please, read the whole thing! That's the most effective way to understand the full story. But even then, feel free to skip bits that don't grab you as much. This report is meant to be a resource for you, so use it however you see fit.

A BIG PICTURE VIEW OF SOUTH AFRICA'S TAX SYSTEM

A country's tax system is an essential tool in financing growth and public spending while distributing a country's resources in a fair manner.

South Africa is faced with complex crises of unemployment, poverty, inequality, and economic stagnation, all of which call on the state to use every resource at its disposal. Is South Africa's tax system at its limits, or can more be done?



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THE TAX MIX AT A GLANCE

This chapter provides an overview of South Africa's tax system. Critically, this chapter interrogates the question of what an appropriate level of taxation really means. By unpacking the country's tax structure, the political nature of seemingly technical issues are brought to the fore.

The South African Revenue Service (SARS) is responsible for the collection of all taxes, with the exception of property rates, which are collected by local municipalities. South Africa has a variety of direct and indirect taxes. The largest direct taxes include Personal Income Tax (PIT), Corporate Income Tax (CIT) and dividends tax. The largest indirect taxes include Value Added Tax (VAT), fuel levy, custom duties and specific excise duties. The share of tax revenue from direct and indirect taxes is important in any economy as they have different redistributive effects. Direct taxes are usually more progressive, meaning that the rate of taxation differs by level of income. Indirect taxes, on the other hand, are often regressive, meaning that tax rates are the same for everyone. For example, all consumers pay 15% VAT in South Africa regardless of their income. As the poor spend a much higher proportion of their income than the wealthy, they pay a much higher percentage of their income in VAT, making it a highly regressive tax. As an economy advances and living standards improve, policy makers should aim to increase the share of tax revenue from direct taxes and decrease the share of revenue from indirect taxes, in order to maximize the redistributive power of taxes.

The Mirrlees Review,¹ which thoroughly examined the design features of tax systems, noted the following:

“The shape of the rate schedule is the most political part of the tax system—the forum in which different views about the trade-off between achieving higher average living standards and achieving a more equal distribution of living standards plays out. Indeed, we see direct taxes and benefits as the key part of the system for achieving the redistribution society desires.”

Figure 1 illustrates the share of total tax revenue from direct taxes (PIT, CIT, Dividends Tax and other direct taxes) over the last 30 years.

Types of Tax

Direct Tax

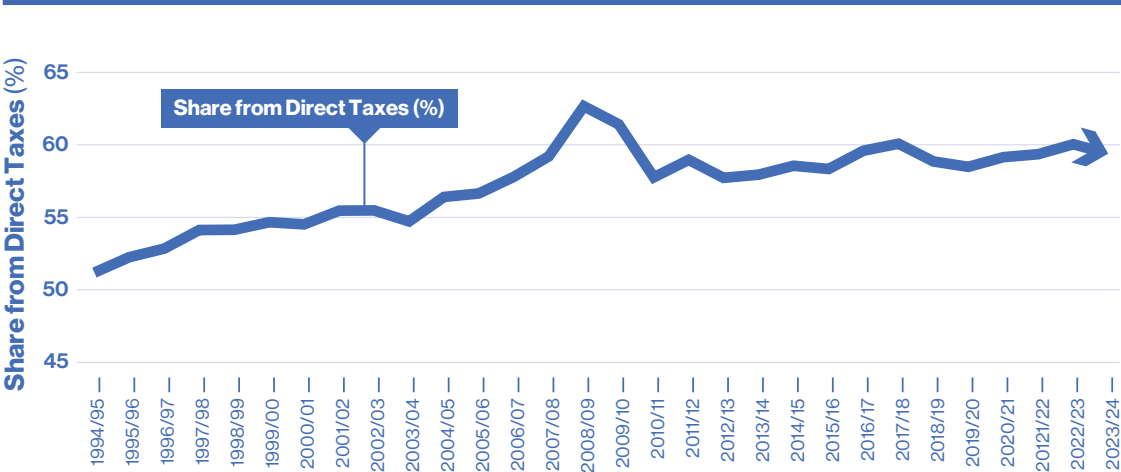
Taxes on individuals and companies they vary according, for example to the income of taxpayer.

Indirect Tax

Taxes on transactions or commodities; they are at the same level for everybody.



EXTRA INFO



Above: Figure 1: Share of Total Tax Revenue from Direct Taxes ²

While improvements were made between 1994 and 2008, with the share increasing from 51% to 63%, progress has stagnated since then, with share from direct taxes remaining between 59 and 60% over the last seven years.

Figure 2 provides an overview of the composition of tax revenue in South Africa between 1994 and 2024.

As a share of total tax revenue, PIT decreased substantially between 1999 and 2006, while the share of CIT increased over the same period. Throughout the period PIT remains the largest contributor, VAT the second

largest contributor to tax revenue. During the early 2000s, there was a large growth in CIT share of the composition. This was mainly due to a commodity boom during this period as well as decreasing PIT effective rates³.

South Africa shows a greater reliance on taxing individuals rather than corporations.

Below: Figure 2: Tax Composition 1994 - 2024. ²⁵

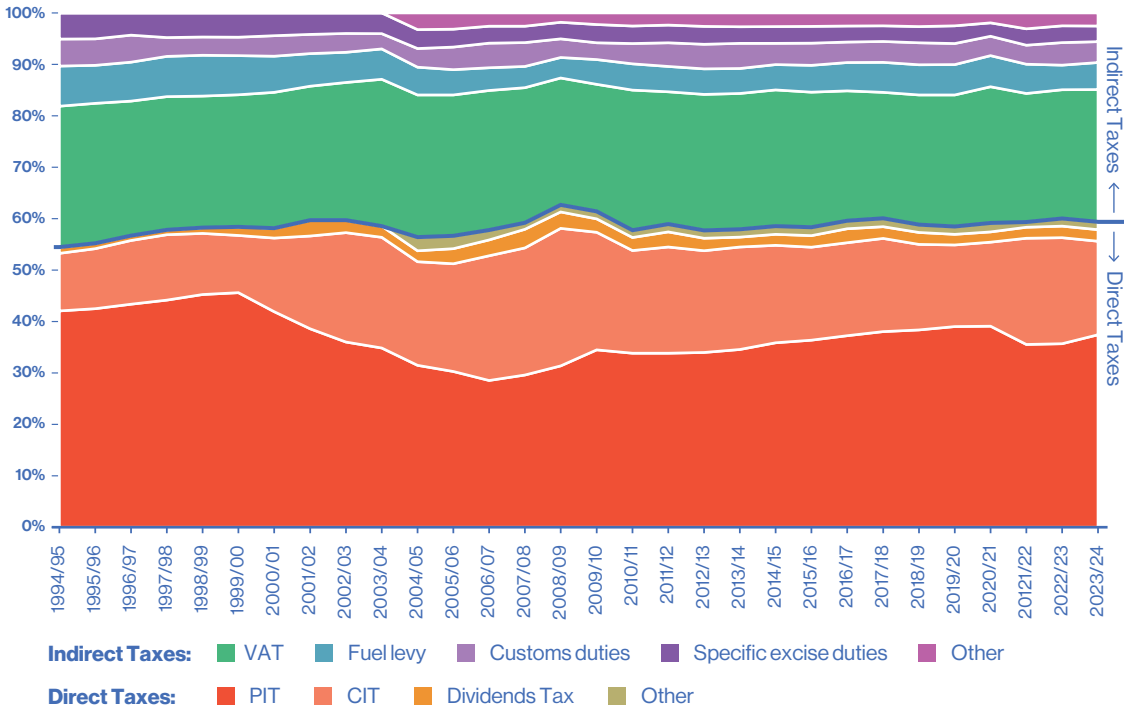


Table 1 and Figure 3 compare South Africa's tax revenue to neighbouring countries and similar economies.

Below: Table 1: Tax revenue breakdown by country 2022 ⁴
Botom: Figure 3: Share of total tax revenue by country 2022 ⁵

	Taxes on goods and services*		Taxes on income, profits and capital gains of corporations		Taxes on income, profits and capital gains of individuals	
Country	% of total tax revenue	% of GDP	% of total tax revenue	% of GDP	% of total tax revenue	% of GDP
Africa average	43.2	8.05	23.7	3.16	19.7	2.84
Botswana	35.5	4.85				
Brazil	41.1	13.68	13.3	4.41	9.2	3.06
Egypt	42.8	6.08	27.8	3.95	13.7	1.94
Kenya	53.6	9.00	11.4	1.91	22.7	3.81
Lesotho	48.6	10.36	10.0	2.13	41.0	8.74
Malawi	54.6	6.84	20.3	2.54	25.0	3.13
Mexico	32.8	5.51	23.0	3.86	21.6	3.62
Mozambique	47.1	10.28	30.4	6.64	19.8	4.33
Namibia	36.8	7.25	21.2	4.18	39.7	7.82
Nigeria	32.4	2.56	46.6	3.68	7.3	0.58
OECD average	23.2	10.58	9.9	3.87	32.0	8.19
South Africa	39.2	10.62	18.9	5.11	32.8	8.87
Uganda	62.1	7.76	8.0	1.00	28.0	3.50
Zambia	40.0	6.46	26.4	4.26	22.7	3.67
Average	41.1	7.99	16.6	3.62	13.1	4.58



South Africa shows a greater reliance on taxing individuals rather than corporations. For example, South Africa only collected 19% of total tax revenue from income, profits and capital gains of corporations, while the African average is 24%. Nigeria collects 47% of total tax revenue from corporations. On the other hand, South Africa collects 33% of tax revenue from income, profits and capital gains of individuals, while the African average is 20%. This is not a recent feature of the system, with Smith⁶ highlighting the diminishing proportion of direct taxation paid by companies compared with individuals, as far back as 2000.

UNDERSTANDING THE TAX MIX THROUGH RACE, CLASS, AND HISTORY

South Africa's political economic history has a very significant impact on the tax mix. Under colonial rule, tax was used as a method not only to finance government spending but also to institute control over Africans, coercing people into reliance on participation in the settler-colonial economy. In the early 20th century, the tax system expanded to cover the upper classes in order to finance a welfare state for the white settler population, as an attempt to reduce inequality and conduct nation-building on racial lines.⁷

During Apartheid black people paid higher percentages of their income in tax, and from an earlier age.

During Apartheid, the extraction of wealth from the black population through the tax system intensified, with black people paying higher percentages of their income in tax, and from an earlier age. In response to growing expenditure needs and the continued expansion of both the military and the white welfare state, additional measures such as a general sales tax (a proto-VAT) were introduced. In addition, tax brackets were adjusted below inflation, meaning taxpayers slid into higher brackets.⁸ Liebermann (2003) argues that race-based nation-building was crucial in allowing the South African tax system to tax high earners without resistance or the threat of a tax revolt.⁹ Importantly, this was also coupled with the reduction of the effective corporate tax rate through the introduction of investment allowances, as an attempt to stimulate the economy. The reliance on direct taxation of individuals over taxation of corporations, in order to stimulate flagging growth, is a feature of the tax system that persists until today, and it partially explains the relatively low share of CIT in the tax mix compared to other countries.

The post-apartheid period saw the new government faced with a number of pressures. On the one hand, the majority of South Africans had been structurally excluded from participation in the economy, access to quality public services, and basic infrastructure. The need for public expenditure outlined at the beginning of this chapter was even more pressing, given urgent expectations of Apartheid redress. Apartheid redress was also expected to include a reversal of racially-biased tax policies implemented in the Apartheid period. On the other hand, the post-apartheid government inherited a struggling economy still reeling from the 1985 debt crisis, while needing to signal a business-friendly agenda, for fear of continuing capital flight. Like many developing countries in the 1990s, it faced significant pressure to adopt neoliberal economic policy and join international markets.¹⁰ Finally, the high levels of tax compliance among high-earning whites were threatened by the end of the Apartheid system and of the Cold War that served as partial justification for it. Thus, the immense pressure for increased resource mobilisation and expenditure ran headlong into powerful barriers and opposition groups.

Ndlovu (2017) argues that the confluence of these pressures led to two major decisions. The first was to retain the VAT of 14% implemented during the transitional period of the early 1990s, despite widespread popular opposition, particularly from trade unions. They saw it as representing the legacy of regressive Apartheid taxation, and an attempt to shift the burden of taxation from capital to labour. The second major decision was to focus a lot of attention on the modernisation and development of the tax administration and collection system, coupled with a harmonisation and rationalisation of incentives, deductions and exemptions. Further, major emphasis was placed on broadening the tax base and increasing tax compliance, through outreach and education as well as improvements to the accessibility of tax services.¹¹

These reforms included the 1994 Katz Commission as well as the 2013 Davis Tax Committee. The former led to sweeping changes to modernise the tax system, with one of the key recommendations being an overhaul of tax administration. The latter examined a wide range of features, including the tax mix, corporate tax system, and profit-shifting concerns.¹²

Later chapters will discuss the continuation of this approach in current tax policy, and some of the recommendations in this report will speak to how measures to close the tax gap and broaden the base can lead to additional revenue without raising tax rates. **However, it will ultimately be very difficult to broaden the tax base and move towards a more progressive tax mix without addressing the fundamental issues of growth, inequality, and unemployment.** This is a two-way relationship as the tax system should also play a role in addressing these issues itself, but ultimately there are limits to the redistributive role of the tax system and therefore it must be tied to a broader developmental agenda, which will in turn unlock greater potential for both revenue raising and redistribution from the tax system.

IS SOUTH AFRICA'S TAX-TO-GDP RATIO TOO HIGH?

The answer to this question is not straightforward - there is no objective measure that can determine whether a certain level of tax income is too much or too little. This is something that is defined relative to the needs of the country, what can be justified to its citizens, and what is enforceable.

Economists use a basic rule of thumb, comparing a country's tax revenue to the size of its GDP – the tax-to-GDP ratio. South Africa's tax-to-GDP ratio is considerably higher than those of other African countries, standing at 24.6% for 2023/24,¹³ in comparison to an average of around 17% for the continent.¹⁴ However it is significantly lower than Brazil at 33%, as well as the OECD average of 34%. In Appendix A, we discuss the use of 25% as an unofficial target by the National Treasury.

A higher tax-to-GDP ratio allows the government to adequately fund essential services and invest in long-term economic growth. When direct taxes dominate the tax mix, a high tax-to-GDP ratio also plays an important role in the reduction of inequality. This occurs both through reducing the concentration of power that comes with concentration of wealth, as well as through collecting adequate revenue to provide high quality essential services to all, thereby somewhat levelling the playing field.

A country's tax-to-GDP ratio reflects not just its revenue-raising capacity, but also a political choice about the size of the public sector.

Africa	15.99%
Botswana	13.64%
Brazil	33.27%
Egypt	14.19%
Kenya	16.79%
Lesotho	21.31%
Malawi	12.52%
Mexico	16.80%
Mozambique	21.84%
Namibia	19.70%
Nigeria	7.91%
OECD average	34.04%
South Africa	24.90%
Uganda	12.50%
Zambia	16.16%

Left: Table 2: Total tax revenue as % of GDP by country 2022.

ARE CURRENT TAX REVENUES SUFFICIENT TO SUPPORT THE PUBLIC SECTOR?

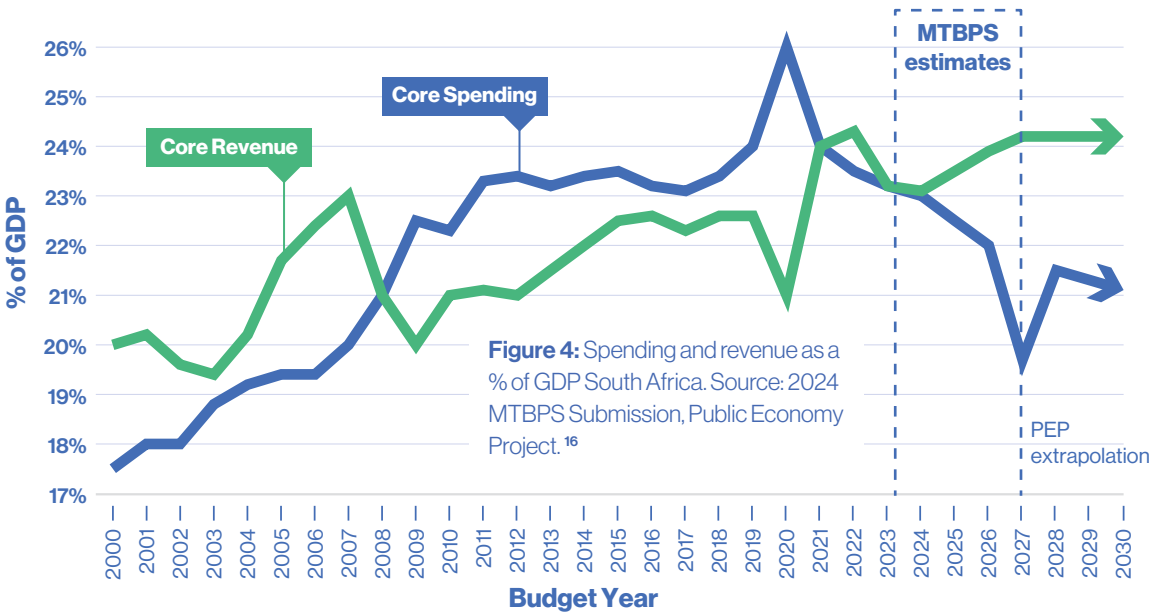
The Public Economy Project tracks trends in government revenue and expenditure over the long term (see Figure 4 below).

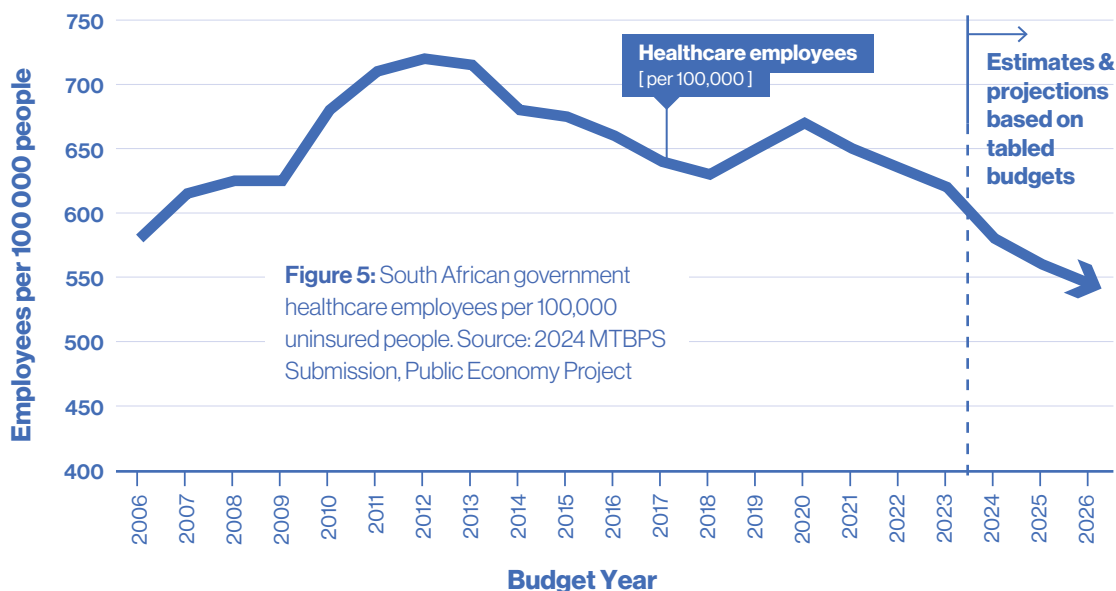
We can see that South Africa’s core revenue (a measurement which excludes some levies and decentralised taxes under local government control) remained higher than core spending, until the global financial crisis of 2008. From that point, spending has exceeded revenue by a significant amount, apart from the second commodities boom after the Covid-19 pandemic.

The result of this trend is that real core spending per capita has remained constant since the 2010s, when commodity prices began to collapse and global demand for South African exports (mostly from China) began to slow. From 2020, when cost-containment measures were introduced, core spending per capita then began to decline in real terms. This has had serious implications for the provision of public services.

In a tax system that is progressive – a graduated tax system that uses tax brackets to tax the higher incomes at higher rates – the tax revenue-to-GDP ratio will have a tendency to grow, if all other factors stay the same. The moral or philosophical idea behind this, which was salient in Social Democratic nation-building projects, is that, a person with a higher living standard can every year contribute a larger share of their income to “the commons”, the public service sector, improving the lives of all, and achieving sustainable, inclusive growth.¹⁵

In September 2023, more than 13% of public sector posts were vacant.





Numerous public sector departments have faced underfunding and consequent shortages in personnel and equipment, and infrastructure deficiencies. In September 2023, more than 13% of public sector posts were vacant, a large number as a result of departments dealing with budgetary constraints.¹⁷ A hiring freeze was imposed across public sector departments in 2023/24, resulting in the worsening quality of public service delivery, as staff have been made to fill multiple roles. Figure 5 shows the decline in the number of government healthcare workers per 100,000 uninsured people.

A significant amount of anecdotal evidence has also come to light about dire conditions at many public hospitals and clinics, particularly in rural areas, as a result not only of staffing challenges but also a lack of basic medicine and medical equipment. Other examples are explored further in Chapter 6, which discusses the state of public expenditure.

State expenditure on basic public services and social protection will need to grow substantially to meet the basic needs of South Africans and avoid a social crisis, such as the July 2021 wave of riots and looting. Although this was ostensibly triggered by the imprisonment of former president Jacob Zuma, it was fundamentally driven by a combination of food and fuel price hikes with mass layoffs from the Covid-19 pandemic, and the end of the Social Relief of Distress grant (SRD).¹⁸

FUNDING STRUCTURAL TRANSFORMATION

Structural economic transformation and inclusive growth are absolutely critical in alleviating unemployment, poverty and inequality.

Social support and public service provision are insufficient in providing a lasting solution to South Africa's socio-economic issues. In addition, there are limits to the extent to which progressive taxation alone can transform income inequality.¹⁹ Structural economic transformation and inclusive growth are absolutely critical in alleviating unemployment, poverty and inequality. Historically, coordinated industrial development efforts have been able to achieve incredible structural economic transformation in some Global South countries such as China and India, leading to sustained economic growth and an unprecedented reduction in poverty and increase in living standards. It is not surprising, then, that the concept of a large-scale industrialisation “push” is increasingly popular in South Africa, finding expression in the rhetoric of the largest political parties, statements by labour federations, and civil society campaigns.²⁰

However, for a large-scale industrialisation “push” to meet the expectations and needs of the majority of unemployed, working class and otherwise disenfranchised South Africans, industrial policy must prioritise mass employment, social well-being through the fulfilment of basic needs, and the addressing of historical inequalities. In addition, the current context necessitates a rethinking of the relationship between industrial policy and nature, especially given the increasingly severe impacts of climate change on weather patterns, and measures such as the European Union’s Carbon Border Adjustment Mechanism. Finally, such a “needs-based” industrialisation effort cannot take place in the confines of South Africa’s existing economic structure, but must transform it, establishing lasting domestic linkages.

This will require a significant amount of resources. While there is no estimate of what such an agenda would cost to implement, we can take it as indicative that South Africa’s Just Energy Transition Investment Plan alone calls for close to \$100bn (R1.72tn) in total investment from both the public and private sector. The purpose of this initiative is to transition the energy sector away from its reliance on coal, and to support the development of new green industries, without effecting deeper structural transformation.²¹ Given that such a narrow transition would be a necessary component of any economic development agenda for South Africa, we can only speculate that a broader transition and development agenda would cost well over a trillion rand over the next decade.

This kind of investment would necessitate a significant increase in the tax-to-GDP ratio. Over time, if such a developmental agenda was successful, it could later result in an eventual lowering or stabilisation of this ratio, if GDP growth is able to accelerate to levels required to deal with South Africa’s multidimensional crisis.

CONCLUSION: ON THE POLITICAL NATURE OF TAX

In closing this chapter, it is important to reiterate that both South Africa’s tax system and the Revenue Service have gone through a number of reforms throughout the post-apartheid period. Today’s tax system is the result of these successive rounds of reform and tweaks, as well as a great deal of academic literature and debate. This has left relatively little “low-hanging fruit” in terms of revenue-raising options without political or economic strings attached, but that does not mean that there is no more room for progressive changes to the tax framework. Empirical research may establish limiting factors — such as the marginal rates at which increased evasion outweighs tax gains — or may identify either positive or negative linkages between certain tax rates and economic indicators, and this report will discuss these trade-offs in their respective sections. However, we must remind the reader that ultimately the process that decides the “appropriate” level of taxation is a political process, closely informed by empirical work, and not a technical exercise merely influenced by political work. It is for this reason that we have not decoupled our analysis of the tax system from our perspectives on the need for structural transformation.

Decisions on who to tax and how are inherently political.

APPENDIX A:

THE UNOFFICIAL 25% TAX-TO-GDP TARGET

Since the end of Apartheid, the South African government has adopted four development plans:

- Reconstruction and Development Plan (RDP) | 1994
- Growth, Employment and Redistribution Plan (GEAR) | 1996
- Accelerated and Shared Growth Initiative for South Africa (AcSGISA) | 2006
- National Development Plan (NDP) | 2012

A key passage in GEAR reads: “the improvement in economic growth, together with improved tax administration, should lead to a strong increase in tax revenue relative to GDP [Gross Domestic Product]. This will create considerable scope to effect further reductions in the rates of personal and corporate taxation, while maintaining a ratio of tax to GDP of about 25 percent.”²² In 2012, around the time of the adoption of the NDP, the finance minister alleged that the budget framework would result in “tax revenue stabilising at about one-quarter of GDP”. In the absence of a defined target, we can take this 25% of GDP as an implied target for tax revenue by the post-apartheid government, as the ratio has remained at a consistent level of around 25% throughout the last quarter of a century.

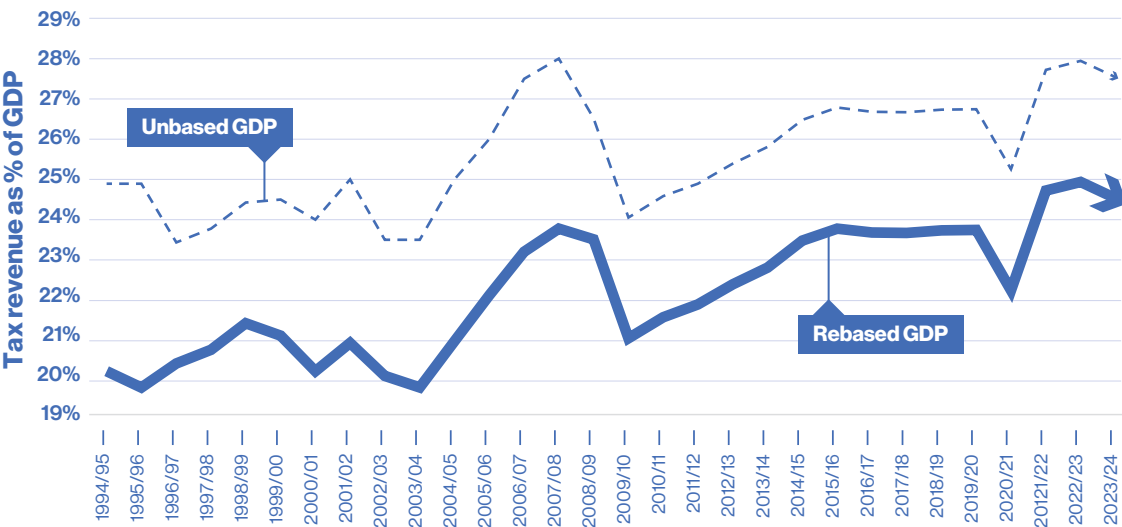
However in 2020, the national statistical authority rebased the GDP, resulting in an upwards adjustment to GDP, and a consequent downwards adjustment to the tax-to-GDP ratio (see Figure 6).

Retrospectively, it seems that the tax-to-GDP ratio was around 4 percentage points lower than previously thought.

Table 3 and Figure 7 below show the tax-to-GDP revenue between 1994 and 2024.

Both current tax revenues and the target of 25% tax-to-GDP, are insufficient to meet the needs of ordinary South Africans through the provision of quality public services.

Below: Figure 6: Tax revenue-to-GDP ratio 1994/95 to 2020/21.



R million	Tax revenue	Nominal GDP1	Tax revenue as % of GDP
1994/95	113 775	562 221	20,2%
1995/96	127 278	641 674	19,8%
1996/97	147 332	720 875	20,4%
1997/98	165 327	795 701	20,8%
1998/99	184 786	862 254	21,4%
1999/00	201 266	952 614	21,1%
2000/01	220 119	1 087 628	20,2%
2001/02	252 295	1 204 512	20,9%
2002/03	281 939	1 400 935	20,1%
2003/04	302 443	1 524 757	19,8%
2004/05	354 979	1 691 286	21,0%
2005/06	417 196	1 885 724	22,1%
2006/07	495 549	2 135 550	23,2%
2007/08	572 815	2 409 261	23,8%
2008/09	625 100	2 658 156	23,5%
2009/10	598 705	2 843 029	21,1%
2010/11	674 183	3 123 336	21,6%
2011/12	742 650	3 391 162	21,9%
2012/13	813 826	3 633 648	22,4%
2013/14	900 015	3 945 369	22,8%
2014/15	986 295	4 200 741	23,5%
2015/16	1 069 983	4 498 913	23,8%
2016/17	1 144 081	4 831 200	23,7%
2017/18	1 216 464	5 138 407	23,7%
2018/19	1 287 690	5 425 437	23,7%
2019/20	1 355 766	5 709 241	23,7%
2020/21	1 249 711	5 616 352	22,3%
2021/22	1 563 754	6 325 590	24,7%
2022/23	1 686 697	6 763 457	24,9%
2023/24	1 740 870	7 094 783	24,5%

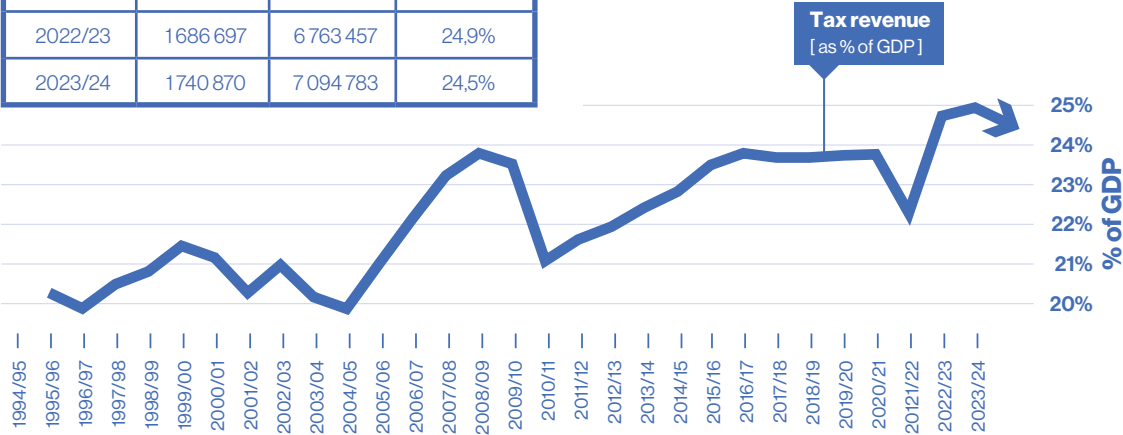
Left: Table 3: Tax revenue to GDP 1994 - 2024. Source: 2024 Tax Statistics, South African Revenue Service.²³
Source: 2024 Tax Statistics, South African Revenue Service (Own graph using rebased GDP).²⁴

Using the rebased GDP figures, the tax-to-GDP ratio has remained in a narrow band of between 23 - 25% over the past five to ten years. This reflects both external factors and policy choices.

The first commodity boom coincided with South Africa's period of growth in the early 2000s, allowing for a tax-to-GDP ratio of just below 24% at its height. Since the first boom ended with the financial crisis, South Africa has had low GDP growth, but stable tax revenues which only slightly increased the tax-to-GDP ratio, taking six years to recover the 2.5% lost after the global financial crisis. During the hard lockdown in 2020, more than 1 million workers lost their jobs and thousands of firms closed down, leading to a significant dip in tax revenue, which was quickly counteracted by the economic bounce-back, as well as the ensuing commodity boom.

However, the fact that the ratio has remained in such a narrow band also reflects the state's unofficial 'target' of a 25% tax-to-GDP ratio, which has been implied in policy for decades, and maintained through constant downward revisions to corporate income tax as well as higher-than-inflation adjustments to the personal income tax brackets. As described in the previous sections, both current tax revenues as well as the target of 25% tax-to-GDP are insufficient to meet the needs of ordinary South Africans through the provision of quality public services.

Below: Figure 7: Total tax revenue as % of GDP.



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4. The colour gradient compares performance with the average. The sample average is shown as yellow; increasing red tones indicate lower numbers; and increasing green tones indicate higher numbers. Only data on taxes on goods and services is available for Botswana.
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Chapter 2

WHO DOES OUR TAX SYSTEM SERVE

In South Africa, where wealth and poverty exist side by side, the tax system reflects our deep inequality.

To understand tax here is to see how policy shapes who prospers and who is left behind.



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INTRODUCTION

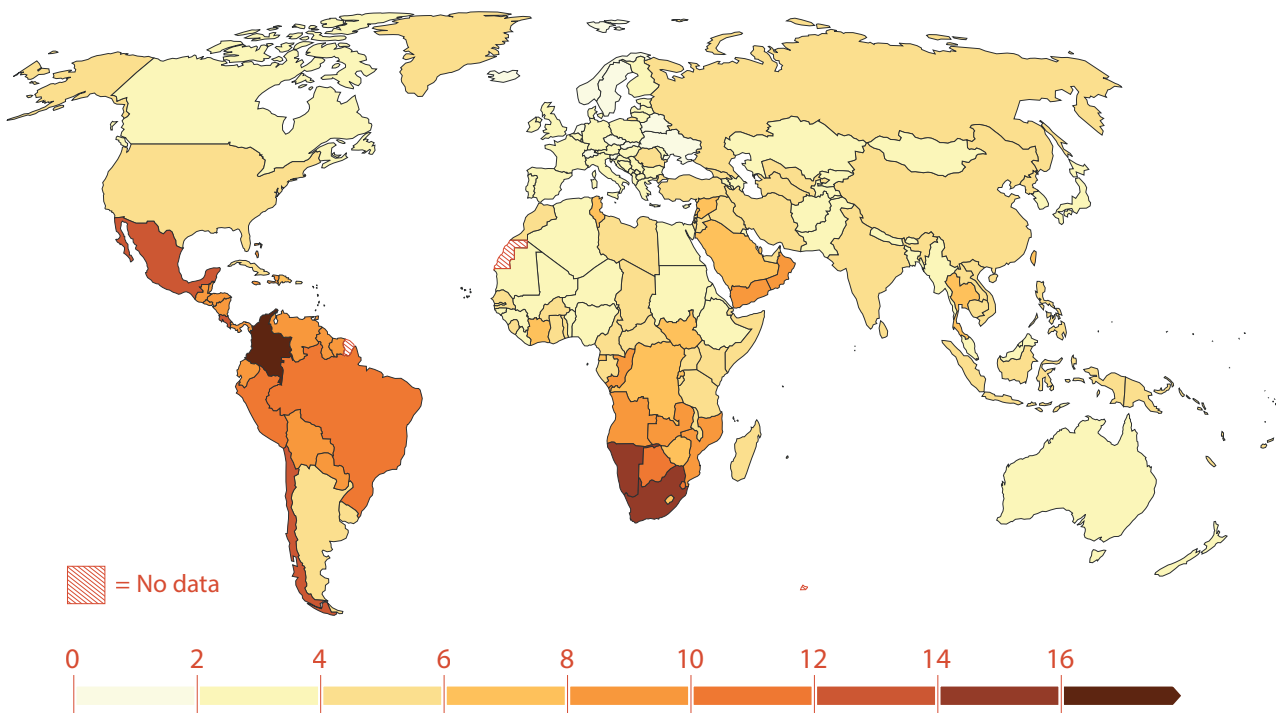
This chapter examines how South Africa's tax system operates within the most unequal society on earth. It traces who contributes, who benefits, and how policy choices sustain deep divides in income and opportunity. It reveals how technical decisions about revenue and rates shape lives, entrench privilege, and determine the limits of redistribution.

The Palma ratio is a measure of inequality that divides the income share received by the richest 10% by the income share of the poorest 40% (see Figure 1).

South Africa's Palma ratio is a shocking 16. This means collectively the richest 10% of South Africans earn 16 times what the poorest 40% earn.

Under such extreme circumstances, extreme measures to redistribute and provide equal opportunities to all must be taken. This chapter explores South Africa's tax system, focusing on its role in redistribution and revenue collection to enable the state to provide essential services to all citizens. We ask the question, does the tax system do enough?

Below: Figure 1, Global Income inequality: Palma Ratio.¹



Income inequality: Palma ratio (before tax), 2023

The Palma ratio is a measure of inequality that divides the share received by the richest 10% by the share of the poorest 40%. Higher values indicate higher inequality. Inequality is measured here in terms of income before taxes and benefits.

TAXES ON INCOME

The fundamental purpose of a progressive tax system is to ensure fairness and social equity. This chapter argues that, over the last quarter-century, South Africa's personal income tax system has steadily shifted away from this ideal. For example, high-income earners are now paying less tax in real terms than they did in 1994. In addition, the tax structure, with various deductions available, disproportionately benefits high earners. Furthermore, a significant disparity exists between the tax on employment income and the lower tax on passive income from financial assets, such as dividends.

This system allows the wealthy, who derive significant income from their assets, to pay a lower effective tax rate than the working class pays on their salaries. This dynamic entrenches class differences and exacerbates existing inequality.

This chapter delves into these complex dynamics, examining the structure and application of taxes on various forms of income, including employment income, capital gains, and dividends. We will explore how each tax is applied, the revenue it generates, and how this has changed over time. The analysis will then assess whether the current system effectively contributes to revenue mobilisation and wealth redistribution. The chapter concludes with a series of recommendations on how to improve each tax to foster a more equitable and efficient system.

PERSONAL INCOME TAX (PIT)

A progressive personal income tax structure is fundamental to achieving equality in any society. This principle has particular significance for South Africa, where the legacy of its history has entrenched profound and persistent inequalities across class, gender, and racial lines.

Statistics South Africa's (Stats SA) 2022/23 Income and Expenditure Survey starkly illustrates these disparities:

- Male-headed households reported an average income 51% higher than female-headed households.
- White households had an average income an alarming 370% higher than Black households.

Given this context of deep, structurally rooted economic imbalance, any South African policy concerning personal income tax that is not sufficiently progressive will inevitably and disproportionately harm women and Black South Africans. This section, therefore, explores South Africa's current personal income tax system to assess its degree of progressivity and identify areas where improvements can be made, to better serve the country's constitutional commitment to equality.

PIT is levied on both residents' and non-residents' employment income (wages and salaries) and other personal income (from business and property ownership).

Steenekamp² described South African's PIT system as follows: "The income tax system in South Africa conforms to a semi-comprehensive income tax system (CPIT). The semi-CPIT system is prone to tax arbitrage as individuals restructure their tax affairs to exploit exemptions, allowances and (savings and investment) after-tax rate differentials."

PIT is mainly collected using the Pay As You Earn (PAYE) method, where salaried employees are taxed based on their salary and allowances. Employers withhold the portion of an individual's salary owed to SARS and directly pay it to SARS. This system results in high tax compliance from ordinary salaried workers, while there are significantly more challenges for collections from other sources of income. As wealthy individuals are more likely to earn income from sources other than salaried employment, this introduces a bias, in which wealthy individuals are more likely to engage in the aggressive tax planning Steenekamp is referring to, and to get away with tax avoidance or evasion.

There is no distinction of rates based on gender, marital status (single/married) or size of family (e.g. number of children). Married couples are not taxed differently. PIT rates are standard across all sectors/activities, and there are no exemptions for vulnerable groups. However, individuals who earn below a certain exemption threshold do not need to pay income tax. Table 1 (right) shows the income exemption thresholds by age.³

The threshold for individuals under 65 has largely been considered appropriate. Income exemption thresholds that differ for those older and younger than 65 are a historic feature of the South African tax system. A third rebate was introduced for taxpayers aged 75 years and older from 1 March 2011. Having higher exemption thresholds for older individuals incentivises individuals to save for retirement, but also opens up opportunities for high-income individuals to structure their taxes in order to minimise their tax liability.

At the current thresholds, 12% of the total population, or 44% of individuals employed in the formal economy, pay PIT, see Table 2.

Below: Table 1: Income Exemption Thresholds for the 2025 Tax Year.³

Age	2022	2023	2024	2025
Under 65	R87 300	R91 250	R95 750	R95 750
65 & older	R135 150	R141 250	R148 217	R148 217
75 & older	R151 100	R157 900	R165 689	R165 689

Below: Table 2: Proportion of population paying PIT.^{4, 5}

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Number of PIT Payers	7 411 042	7 487 392	7 643 157	7 146 434	6 960 267	7 445 393	7 122 113	7 409 406
% of population	13.1%	13.1%	13.2%	12.2%	11.7%	12.4%	11.8%	12.1%
% of working age	19.7%	19.6%	19.7%	18.1%	17.4%	18.3%	17.3%	17.9%
% of labour force	33.1%	33.3%	32.6%	32.1%	30.6%	30.9%	28.5%	29.7%
% employed	45.3%	46.0%	46.7%	47.7%	46.7%	46.0%	42.5%	43.7%

These relatively low rates are due to staggeringly high unemployment in South Africa, as well as a high proportion of working poor — employed individuals with very low income. The proportion of employed individuals paying PIT increased annually from 2017 to 2020, but has decreased since, likely due to the economic consequences of Covid-19.

Table 3 summarises the PIT rates for the 2025 tax year for individuals earning above the exemption thresholds.

Below: Table 3: PIT Rates for the 2025 Tax Year.⁶

Taxable income (R)	Rates of tax (R)
1–237 100	18% of taxable income
237 101–370 500	42 678 + 26% of taxable income above 237 100
370 501–512 800	77 362 + 31% of taxable income above 370 500
512 801–673 000	121 475 + 36% of taxable income above 512 800
673 001–857 900	179 147 + 39% of taxable income above 673 000
857 901–1 817 000	251 258 + 41% of taxable income above 857 900
1 817 001 and above	644 489 + 45% of taxable income above 1 817 000
Rebates³	
Primary	17 235
Secondary (> 65 years)	9 444
Tertiary (> 75 years)	3 145

The PIT system has seven brackets, ranging from 18% to 45%. During the 1980s, South Africa had 20-24 brackets (depending on marital status). Throughout the 90s the number of brackets were decreased annually, to the point where there were only six brackets in the 1998/89 tax year. In 2017/18 a seventh bracket was introduced and the system has had seven brackets since then.

The rates applied to each bracket were decreased in 2000 by between 1 and 4 percentage points, and again in 2002 by 2 percentage points, for every bracket excluding the lowest bracket, decreasing the progressivity of the structure. The rates applied to each bracket remained unchanged until 2015/16 when they were increased by 1 percentage point. In 2017/18 a new top bracket was introduced for individuals earning more than R1.5 million per annum, increasing the highest marginal tax rate from 41% to 45%. This reform affected the top 0.6% of income

earners. Tax revenue collected from this group of the highest earners is significant, amounting to R100 billion, or 23% of PIT revenue collection in 2017.⁷

National Treasury reported that the introduction of a new top bracket did not raise as much revenue as was expected. This does not seem to be driven by flight of skilled workers. In 2023, SARS reported only 6,000 taxpayers moved from South Africa over the course of the previous year, of which only a small portion were high income earners.⁸ However, in the year of implementation, South Africa faced its second recession since 1994, its investment status was downgraded to junk, investor confidence decreased, and gross fixed capital formation contracted. All of these factors could explain lower than expected PIT revenue.

In studying the effects of this tax reform, Axelson et al⁹ found that in 2017 affected taxpayers decreased their reported taxable

income. This was not driven by taxpayers leaving the PIT base, or lower labour market earnings, but rather through lower investment income, fringe benefits, bonus and incentive pay. One interpretation is that affected individuals reduced their effort in the workplace. The authors find some evidence of this, as sales of firms with affected employees reduced. This effect could be due to reduced efforts of affected employees. However, the authors note that this could also be due to manager-owners finding it more attractive to “shift firm activity to the shadow economy after the reform” (p 26). Such behaviour would be more possible in small firms, under less scrutiny by SARS. This hypothesis is consistent with the authors’ findings that larger decreases in sales were seen in smaller firms.

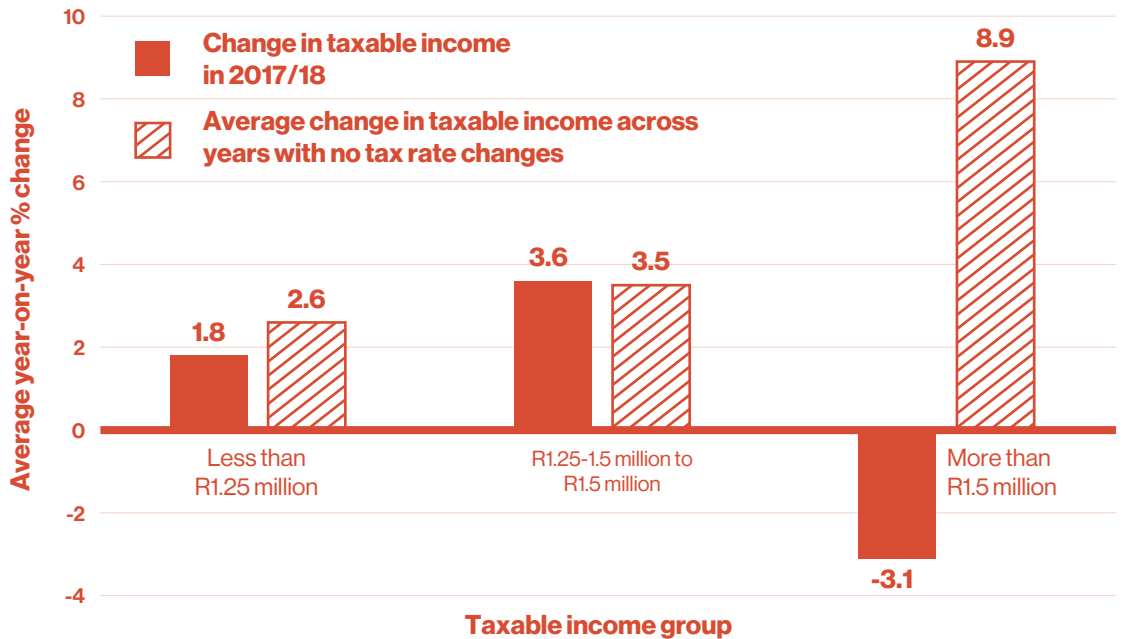
For individuals earning R2 million per annum, the reform would have increased their effective tax rate by 1 percentage point from 37% to 38%. For individuals earning R3 million per annum, the increase in effective tax would be 2 percentage points, from 38% to 40%. One explanation that has been put forward for the decrease in reported taxable earnings is that the increase in the tax rates decreased individual motivation, which led to a decrease in sales at the firm level.

Further research is needed to understand if a small increase in effective tax rates would really incentivise high-earning individuals to perform more poorly in their work. Further, if affected individuals did put less effort in, would this be to the extent that it would result in fewer sales on a firm level? Little evidence is available to support this explanation, and we remain sceptical of it.

Another possible explanation for the decrease in reported taxable income is increased tax avoidance and evasion by affected taxpayers. Given the decrease in employer income such as fringe benefits, bonus and incentive pay, the authors report that they “cannot fully exclude that responses along these lines do not root in collusive behaviour of employers and employees” (p 10). One possibility is an understatement of the proportion of private use of company cars, laptops, and cell phones, or private elements of business travel. With respect to investment income, while some forms of interest income are subject to third party reporting, many sources of investment income are not, leaving opportunity for taxpayers to evade taxes.

National Treasury reported that the contraction in declared taxable income was specifically seen in the taxpayers affected by the reform, and not witnessed across the board (see Figure 2).

Below: Figure 2: National Treasury analysis of new top tax bracket.¹⁰



This may appear to rule out economic factors as the reason for the lower than expected PIT revenue. However, Axelson found that wage income was unaffected and rather bonus and incentive pay were lower after the reform. The specific challenges faced by the South African economy in 2017, with low business confidence and investment, are likely to affect bonus and incentive pay for high income earners specifically. Therefore, the decreases in bonus and incentive pay could be due to real economic factors, unrelated to the tax reform.

In order to decrease the incentive of owner managers to shift their income from wages to dividends, SARS increased the rate of tax applicable to dividend income at the same time as the introduction of the new top tax bracket. However, the 20% tax on dividends is still lower rate than the tax on wage income for high earners. Individuals affected by the new top bracket faced at least a 36% effective tax rate on their income at the time of the reform.¹¹ Therefore, despite the increase in the tax rate on dividends, shifting income from wages to dividend income remains an effective potential avenue to minimize tax liability. The authors address this by studying the effect of the reform on individuals who did not receive any dividend income. They find that the decrease in taxable income is still significant, indicating that such a shift in how income is declared cannot fully explain the decrease in declared PIT. However, the effects are smaller, indicating that it could partially explain the change.

Finally, individuals could shift income from wages to capital gains by keeping money in a business, or by receiving shares as a form of compensation. Because capital gains are subject to an inclusion rate of 40% (only 40% of capital gain is taxed), this could be an effective strategy for lowering tax liability.

Axelson estimates that the reform should have increased collections from higher earners by R5.46 billion, but that instead collections from this group dropped by R6.48 billion. The analysis assumes that the taxable income of affected taxpayers and non-affected taxpayers would have followed the same trend had the reform not taken place. Any divergence after the reform can therefore be attributed to the reform itself. However, it is possible that the economic factors in 2017 affected these two groups differently. It is therefore possible that the divergence in

trends of the two groups are not due to the reform, but due to the recession experienced by the South African economy in 2017.

Axelson concludes that their findings “place the new top tax rate on the wrong side of the Laffer curve” (pg 3).¹² However, reforms that close opportunities for evasion and avoidance and bring effective tax rates on dividend income and capital gains in line with effective rates on wage income, as well as stricter auditing of fringe benefits and incentive pay, and increased third-party reporting of investment income, could change this finding. In addition, at the time of the reform, SARS was institutionally weak, having been a victim of state capture¹³. Had it been more equipped to deal with increased attempts to avoid and evade tax, the reform could have had a different outcome.

That being said, future reforms to increase revenue from PIT may have limited success from increasing the highest marginal tax rate, as such a change elicits a large response from taxpayers that is costly to manage. Preventing employees from underreporting the personal use of company assets, such as vehicles, laptops, and mobile phones, as well as personal aspects of business travel, while administratively challenging, must be pursued. In the long term, enhancing the social contract, to reduce incentives for tax avoidance and evasion, is a crucial component in preventing such behaviours. In the short term, measures that do not elicit an increase in aggressive tax planning will be more effective. Such measures could include reducing deductions from PIT that disproportionately favour high-income earners, and managing annual adjustments to PIT income brackets. These options are discussed in depth in the next section of this report.

Collusion between employers and employees could explain the lower-than-expected PIT revenue observed after the new higher top bracket was introduced.

Current income Bracket (R)	Current Rate (%)	Proposed Income Bracket (R)	Proposed Rate (%)
1–237 100	18	1–237 100	18
237 101–370 500	26	237 101–370 500	26
370 501–512 800	31	370 501–512 800	32
512 801–673 000	36	512 801–673 000	37
673 001–857 900	39	673 001–857 900	40
857 901–1 817 000	41	857 901–1 270 000	42
1 817 001 and above	45	1 270 001 and above	45

Above: Table 4: Proposed PIT Rates for the 2025 Tax Year.¹⁵

Wright et al.¹⁴ conducted research on ways to deepen and broaden the PIT base without increasing the tax rate on the top band. One of the reforms investigated by the authors involves lowering the minimum income threshold for the top band. At the time of the study (2020) the minimum income threshold stood at R1.5 million; the authors investigated the effects of lowering the threshold to R1 million. Additionally, their proposed reform increased the tax rate of bands 3-6, by 1 percentage point each. The study uses a methodology that is able to model behavioural responses from the reform. They show that it leads to increases in average tax rates of below 1 per cent for the 83rd to the 98th income percentile, and around 1 per cent for the two highest income percentiles. They estimate that the reform would raise R3.9 billion in additional revenue when taking into account behavioural responses, while in the absence of behavioural responses the reform would raise R9.1 billion. They find that the reform does not have a significant effect on inequality. The authors note that “the high inequality of market incomes makes it very difficult to improve the Gini solely through tax reforms as this would require a significant increase in average tax rates for the top 20 percentiles”. However, they find that if the additional revenue is used to increase the child support grant, the reform has the ability to decrease the proportion of female-headed households with children that fall below the food poverty line by 2 percentage points, as well as decreasing the Gini coefficient from 0.647 to 0.641. This research shows that raising revenue by deepening the PIT tax base is possible. To this effect, AIDC recommends increasing the tax rates of PIT

brackets 3-6 each by 1 percentage point and lowering the minimum income threshold for the top band from R1.82 million to R1.27 million. The proposed changes to PIT are illustrated in Table 4 above.

As previously stated, we believe that in the short term, other measures will more effectively target those in the top bracket compared to increasing the applicable rate.

TAX REBATE BIAS

During Apartheid, South Africa’s tax system was discriminatory, favouring married men over unmarried individuals and married women. This bias was embedded in the tax legislation —married men were taxed at lower rates than unmarried people, who, in turn, were taxed at a lower rate than married women.

While the Constitution abolished these explicitly discriminatory practices, the current tax system, though seemingly gender-neutral, still perpetuates inequality. For instance, dual-income households benefit from the tax rebate twice, while single-earner households receive it only once.¹⁶ This disparity can exacerbate income inequality.

To illustrate this, let’s consider a simplified example, comparing the tax burdens of a single-earner and a dual-earner household (see Table 5 on the next page).

The example demonstrates how dual-income households can benefit from double tax breaks, leading to significantly lower tax liability. In this case, the single-income household pays an additional R17 235 in taxes, equivalent to the primary rebate.

Household composition	Dual-earner household			Single-earner household
	Each partner earns R9 875 p.m.			Working single person earns R19 750 p.m.
	Partner 1	Partner 2	Total	Single Earner
Taxable income	R118 500	R118 500	R237 000	R237 000
Tax at 18%	R21 330	R21 330	R42 660	R42 660
Less: Primary rebate (< 65yr)	(R17 235)	(R17 235)	(R34 470)	(R17 235)
Income tax liability	R4 095	R4 095	R8 190	R25 425
Difference:				R17 235

Above: Table 5: Tax Rebate Bias.¹⁷

Considering that nearly one-fifth of South African households were single-person households in 2020, this tax disparity warrants closer attention. The gender implications are also significant, given that single mothers bear the primary responsibility for childcare, with 41.7% of children living solely with their mothers, compared to 4.4% with their fathers.

While some recommend a child care rebate in light of this discrepancy, the particular nature of inequality in South Africa means that a child care rebate is likely to disproportionately benefit higher-income households (as seen in the medical aid rebate, see below). Instead, AIDC advocates for a larger child support grant to offset the larger tax burden on single parent households. A grant has much larger redistributive capacity and is more likely to benefit poor households than a tax rebate.

Dual-income families benefit from the tax rebate twice, while single parents receive it only once. This disparity leads to a higher effective tax rate on total household income for a single parent and exacerbates income inequality.

PIT BRACKET OVER-ADJUSTMENT

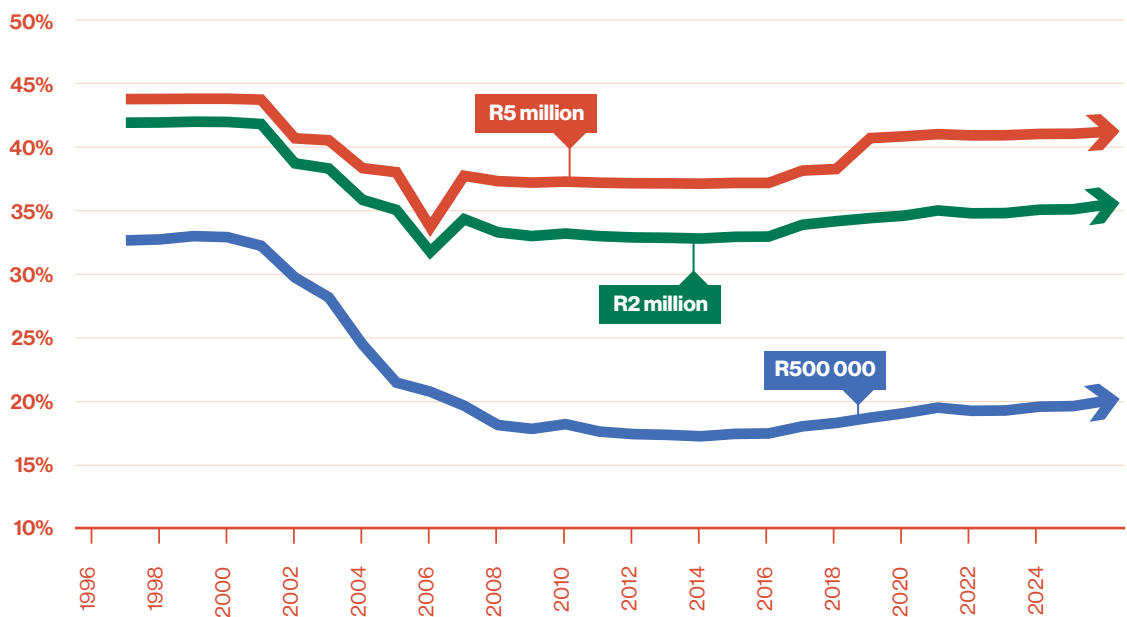
Austerity measures have become a familiar reality in South Africa, negatively impacting public services and impeding prospects for creating decent work. The government argues that reducing spending is necessary, given the high levels of government debt and already stretched resources.

However, a critical examination of our tax system reveals a policy decision that has significantly contributed to this purported fiscal constraint — the over-inflation of PIT brackets.

While the stated intent was to mitigate the effects of “bracket creep”, this practice has diverted substantial revenue from the Treasury, hindering our ability to address pressing societal needs and exacerbating inequalities.

In his 2000 budget speech, then Minister of Finance, Trevor Manuel, proudly announced a commitment to reducing the tax burden on “ordinary people”, citing significant income tax relief measures through the adjustment of tax brackets. While this rhetoric sounds appealing, it’s crucial to analyse the actual impact of such policies within the South African context.

“Bracket creep” occurs when individuals experience an increase in their tax burden over time, as their nominal income increases despite their real income remaining constant. This phenomenon arises when tax brackets fail to be adjusted in line with inflation. As a result, inflation-adjusted salary increases can inadvertently propel individuals into higher tax brackets, leading to a higher effective tax rate.



Above: Figure 3: Effective tax rate at three different annual incomes (in 2024 rands).²⁰

In order to prevent bracket creep, SARS adjusts the tax brackets annually. However, over the last 20 years SARS has often adjusted the brackets above actual inflation rates, leading to lower effective tax rates for the same level of real income.¹⁸ A stark example of this is from 2005, when the inflation rate was 4%, but the minimum threshold for the top tax bracket was lifted by 33%, from R300,000 to R400,000. As a result, a larger portion of income from middle- and high-level earners was taxed at lower rates¹⁹. The decrease in effective tax rates over time is illustrated in Figure 3.

Effective tax rates decreased sharply during the early 2000s. Some recovery is seen between 2016–2019, but effective rates remain below what they were in 1998. The cumulative financial impact is considerable.

PIT should play a vital role in the redistribution of income. However, the over-adjustment of PIT brackets has resulted in significant tax relief for middle-to-high income earners and undermined this redistributive function.

Over and above being a key source of revenue, PIT should play a vital role in the redistribution of income in South Africa, with the objective of addressing increasing inequality trends. However, the over-adjustment of PIT brackets has undermined this redistributive function. If the government had adjusted tax brackets annually strictly for inflation, thereby maintaining effective tax rates, it would have generated an additional R170–198 billion in personal income tax revenue in 2024 alone, representing a 23–27% increase in PIT revenue.²¹

To illustrate the magnitude of this practice, forfeited revenue is equivalent to 160% of the national police budget (R125 billion) and 73% of the national health budget (R271 billion). This policy's impact extends beyond budgetary figures. It has profound implications for social equity. The primary beneficiaries of this tax break are middle-to-high-income earners. Those who fall into lower tax brackets have benefited the least, while those who fall into higher tax brackets have benefited more, with those earning R1 million a year or more facing the largest decrease in their tax liability. This has resulted in significant tax relief for middle-to-high-income earners and decreased the redistributive function of fiscal policy.

Taxable income group	Number of taxpayers	Tax forfeited per taxpayer		Estimated Total forfeited tax	
		Lower Bound	Upper Bound	Lower Bound	Upper Bound
120 001–130 000	107 898	9 169	9 669	989 303 836	1 043 252 836
130 001–140 000	107 929	10 169	10 669	1 097 517 071	1 151 481 571
140 001–150 000	107 499	11 169	11 669	1 200 643 452	1 254 392 952
150 001–200 000	517 137	12 169	15 912	6 292 978 199	8 228 483 285
200 001–250 000	479 541	20 412	24 996	9 788 204 821	11 986 750 375
250 001–350 000	870 516	29 667	37 234	25 825 886 732	32 413 049 342
350 001–500 000	894 995	43 983	54 106	39 364 538 340	48 424 584 385
500 001–750 000	622 484	64 229	73 718	39 981 522 453	45 888 068 582
750 001–1 000 000	252 083	80 713	85 270	20 346 483 808	21 495 043 092
1 000 001–2 000 000	229 926	88 339	98 627	20 311 538 200	22 676 933 445
2 000 001–5 000 000	50 937	101 307	71 307	5 160 279 498	3 632 169 498
5 000 001+	9 435	41 307	41 307	389 732 441	389 732 441
Total Forfeited Tax				170 748 628 852	198 583 941 804

Above: Table 6: Estimated total forfeited tax. ²²

While tax relief is generally welcomed by the public, this particular policy has resulted in persistently high levels of income inequality, by diminishing the progressivity of personal income taxation and the redistributive capacity of our broader fiscal system. The impact of this revenue shortfall has translated directly into underfunded schools, teacher job losses, overcrowded hospitals and stretched policing resources. Consequently, the most well-off have been contributing less, while the burden of austerity disproportionately falls on those least able to absorb it.

The data underscores this point. PIT revenue as a percentage of GDP, a key indicator of a robust tax system, decreased significantly during the most aggressive implementation of this policy in the early 2000s. Only last year did it recover to its 1999 level. As a nation progresses and incomes rise, maintaining consistent, effective tax rates for real income levels will inevitably lead to an increase in PIT revenue as a proportion of GDP over time. However, this growth has been extremely slow in South Africa. As can be seen in Table 7 and Figure 4, PIT revenue as a percentage of GDP decreased rapidly in the early 2000s, reaching its lowest point in 2003.

Since 2003, we’ve slowly gained back what was lost, with a growth of 2.55 percentage points over the last 20 years. Absent the over-inflation of tax brackets, it is projected that this ratio would be substantially higher, at between 12% and 13% in 2024.²³

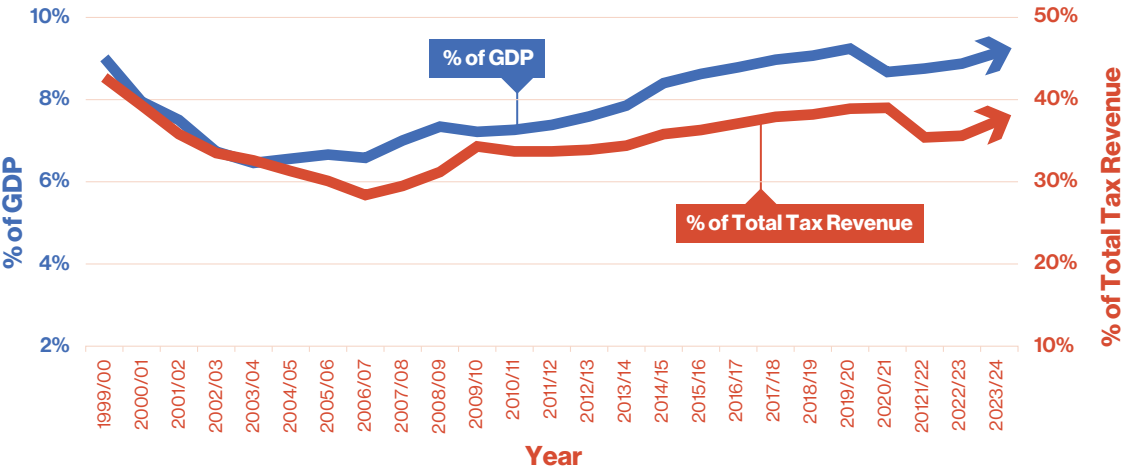
A similar trend is observed in PIT as a percentage of total tax revenue. This was at its highest in 1999 at 43%. It reached its lowest point in 2006 at 28.4%, and has since started to recover, but at 37.5% in 2024 it still falls short of the 1999 peak. In the absence of PIT bracket over-adjustment, if PIT brackets had only been appropriately adjusted for inflation, PIT as a percentage of total tax revenue would be between 49 and 50% in 2024.²⁴

While reversing the over-adjustment would place a larger tax burden on the 12% of South Africans paying PIT, the additional revenue generated would enable the government to adequately fund essential services. Paradoxically, improving the quality of public services benefits all of South Africans, including higher earners, who today opt for private alternatives due to the shortcomings of the public system.

Year	Personal income tax	Total Tax Revenue	% of Total Tax Revenue	GDP	% of GDP
1999/00	85884	201266	42.70%	952614	9.02%
2000/01	86478	220119	39.30%	1087628	7.95%
2001/02	90390	252295	35.80%	1204512	7.50%
2002/03	94337	281939	33.50%	1400935	6.73%
2003/04	98495	302443	32.60%	1524757	6.46%
2004/05	110982	354979	31.30%	1691286	6.56%
2005/06	125645	417334	30.10%	1885724	6.66%
2006/07	140578	495549	28.40%	2135550	6.58%
2007/08	168774	572815	29.50%	2409261	7.01%
2008/09	195146	625100	31.20%	2658156	7.34%
2009/10	205145	598705	34.30%	2843029	7.22%
2010/11	226925	674183	33.70%	3123336	7.27%
2011/12	250400	742650	33.70%	3391162	7.38%
2012/13	275822	813826	33.90%	3633648	7.59%
2013/14	309931	900015	34.40%	3945369	7.86%
2014/15	352950	986295	35.80%	4200741	8.40%
2015/16	388102	1069983	36.30%	4498913	8.63%
2016/17	424545	1144081	37.10%	4831200	8.79%
2017/18	460953	1216464	37.90%	5138407	8.97%
2018/19	492083	1287690	38.20%	5425437	9.07%
2019/20	527633	1355766	38.90%	5709241	9.24%
2020/21	487011	1249711	39.00%	5616352	8.67%
2021/22	553951	1563754	35.40%	6325590	8.76%
2022/23	600367	1686697	35.60%	6763457	8.88%
2023/24	649783	1731353	37.50%	7094783	9.16%

Above: Table 7: PIT Collections as % of Total Tax Revenue and GDP (R million). ²⁵

Below: Figure 4: PIT revenue 1999-2024. ²⁶



By strengthening public services, we create a scenario where even high-income earners might find less need for costly private options, creating savings for them as well. Therefore, AIDC believes that, in order to protect our domestic resource mobilisation and the redistributive function of tax, the over-inflation of PIT brackets must stop immediately. Continuation of this practice will only undermine the government's ability to raise sufficient revenue and address the country's pressing social and economic challenges.

AIDC proposes a two-tiered approach to address this issue. **Lower tax brackets, representing the middle class, should be adjusted for inflation annually by enough to prevent bracket creep, but by no more than that. Higher brackets, representing the elite minority, should be adjusted by less than inflation to rectify the over-adjustment that has occurred and to decrease the shocking levels of inequality.**

PIT DEDUCTIONS

South African taxpayers can reduce their taxable income through various personal deductions. These deductions include:

- Charitable donations to approved organisations, up to a maximum of 10% of taxable income;
- Contributions to registered retirement funds, such as pension, provident, or retirement annuity funds, up to specific limits;
- Travel allowances received by taxpayers from their employers for the portion spent on legitimate business travel;
- Home office expenses for taxpayers who primarily earn income from commissions, under specific conditions.

Section 6A of the Income Tax Act also allows taxpayers to claim a rebate against their tax liability for contributions made to a medical aid. This rebate may only be claimed by the main member²⁷ of a medical aid and is available in respect of contributions made to the medical scheme on behalf of all dependents.

Table 8 shows that, in 2022, R266 billion was deducted from the taxable income of individuals, of which R177 billion, or 67%, was deducted from the income of high-income individuals (more than R500 000 per annum).

Below: Table 8: Deductions by income group, 2022. ²⁸
§ = R million, † = R billion, * = R thousands.

Income group	Number of taxpayers §	Income before deductions †	Deductions allowed †	Percentage of total deductions	Taxable income †
<= 0	0.2	-31	0.1	0.0%	-31
1–70 000	0.9	26	1	0.4%	25
70 001–350 000	2.5	491	41	16%	450
350 001–500 000	0.9	381	47	18%	334
500 000 +	1.5	1 457	177	67%	1 280
Total	6.0	2 324	266	100%	2 058
Income group	Average income per assessed taxpayer	Average deduction allowed *	Average tax-able income per assessed taxpayer *	Percentage of income granted as a deduction	
<= 0	-148	0.6	-149	0.4%	
1–70 000	28	1	27	4%	
70 001–350 000	201	17	184	8%	
350 001–500 000	421	52	369	12%	
500 000 +	979	119	860	12%	
Total	388	44	344	12%	

R177 billion was deducted from the taxable income of high-income individuals. Deductions disproportionately benefit those with higher incomes.

The figures clearly demonstrate that deductions disproportionately benefit those with higher incomes. Individuals with an income above R350 000 deduct 12% of their taxable income on average, while those earning less deduct significantly smaller proportions of their income — 8% for those earning between R70 000 and R350 000 and 4% for those earning less than R70 000.

Table 9 shows the number of taxpayers and total amount by type of deduction.

Deduction	Number of taxpayers	Amount allowed (R million)	Percentage of total	Average Deduction per person (R)
Donations	99 579	1 297	0.5%	13 020
Travel expenses - fixed cost - business cost claimed against allowance	288 275	20 442	7.7%	70 911
Travel expenses - actual business cost	21 246	1 405	0.5%	66 116
Other	27 918	3 043	1.1%	108 982
Subsistence allowance – local	1 803	44	0.0%	24 672
Depreciation	10 490	1 447	0.5%	137 978
Home office expense	31 009	681	0.3%	21 966
Retirement fund contributions	3 719 943	224 094	84.1%	60 241
Employer provided vehicle expenses	48 468	4 154	1.6%	85 711
Employer provided vehicle expenses (operating lease)	2 069	179	0.1%	86 486
Other1	37 978	9 594	3.6%	252 626
Medical Tax Credits Rebate2	2 752 198	22 378	8.4%	8 131
Medical Tax Credits Rebate - additional expense2	1 066 246	8 023	3.0%	7 525
Total		266 380	100.0%	

Above: Table 9: Tax deductions by type – number of taxpayers and total amount, 2022. ²⁹

Notes:

- 1. Includes deductions for accountancy fees, foreign services and other deductions.
- 2. From the 2015 tax year, no medical expenses deductions will appear on assessments as the additional medical expenses tax credit is treated as a rebate against taxes and not a deduction

- 3. Medical tax credit (rebates and additional expenses allowed) has been added for comparative purposes. From 1 March 2014 tax credits applied to all taxpayers. Rebate amount allowed for in the 2014 tax year is already included in medical deduction and is not included in total amount allowed.

The vast majority of deductions (84%) are in the form of retirement fund contributions, with a total of R224 billion deducted from taxable income, and an average deduction per person of R60 241. Medical tax credit rebates and travel expenses also contribute significantly, with R30 billion (11%) and R20 billion (8%) respectively. The next largest category is the “other” category, which includes accountancy fees, foreign services and other deductions. This category accounts for deductions of R9.6 billion (4%) in 2022 and a startling R252 626 annual deduction per person.

Table 10 shows the total amount deducted for travel expenses, retirement fund contributions and medical credits by taxable income group.

Below: Table 10: Deductions - by taxable income group, 2022.^{30,31}

Taxable Income group	Travel expenses ¹		Retirement fund contributions		Medical Tax Credits and additional expenses	
	Amount (R million)	%	Amount (R million)	%	Amount (R million)	%
<= 0	12	0%	82	0%	0	0%
1–70 000	25	0%	978	0%	3	0%
70 001–350 000	2 726	13%	56 130	25%	13 722	45%
350 001–500 000	3 032	15%	50 375	22%	4 791	16%
500 000 +	14 646	72%	116 530	52%	11 886	39%
Total	20 442	100%	224 094	100%	30 402	100%

Table 10 shows that 72% of the benefit of the travel expense deduction accrues to those with a taxable income of more than R500 000 per annum. Similarly, 52% of the benefit of the retirement fund contribution deduction, and 39% of the benefit of the medical aid tax credit, accrues to those with a taxable income of more than R500 000 per annum.

MEDICAL AID TAX CREDITS

It must, however, be noted that some changes have been made to tax relief measures granted for contributions to medical aid schemes. Previously, taxpayers were granted a deduction from their taxable income for medical scheme contributions and some out-of-pocket medical expenses. This deduction

for contributions was replaced with a credit, effective from 1 March 2012, which served to provide greater relief for poorer income earners.³² Whereas the deduction was worth more to a taxpayer who earned more due to the application of graduated tax rates, the credit is worth more to those with lower incomes.

For the 2023/2024 tax year, the Medical Aid Tax Credits are as follows:

- R364 per month for the main member of the scheme (the taxpayer)
- R364 per month for the first dependant on the scheme
- R246 per month for each additional dependant on the scheme.

Tax deductions benefit high-earners disproportionately, while tax credits provide equal benefit regardless of income.

A tax deduction is applied against your taxable income, while a tax credit is applied against your tax liability. Table 11 provides an illustration of how deductions provide larger tax savings for higher-earning individuals.

Below: Table 11: Tax deductions provide larger benefits to high-income earners

	Annual Income	Deduction	Taxable Income	Effective Tax rate	Tax Liability	Tax Saved due to deduction
Individual 1 – no deduction	800 000	-	800 000	26.4%	211 442	-
Individual 1 – with deduction	800 000	48 000	752 000	25.6%	192 722	18 720
Individual 2 – no deduction	200 000	-	200 000	9.4%	18 765	-
Individual 2 – with deduction	200 000	48 000	152 000	6.7%	10 125	8 640

Individual 1 earns R800 000 per annum, while individual 2 earns R370 000 per annum. Both individuals have tax deductions equal to R48 000 per annum. However, because of individual 1's higher effective tax rate, the deduction results in a larger deduction to their tax liability compared to individual 2.

Table 12 illustrates how tax credits, because they are applied to an individual's tax liability, provide equal benefit, regardless of income, resulting in a less regressive tax measure that benefits those with lower income.

Below: Table 12: Tax credits provide the same tax benefits to all.

	Annual income	Taxable income	Effective tax rate	Tax credit	Tax liability	Tax saved due to deduction
Individual 1 – no credit	800 000	800 000	26.4%	-	211 442	-
Individual 1 – with credit	800 000	800 000	26.4%	12 480	198 962	12 480
Individual 2 – no credit	200 000	200 000	9.4%	-	18 765	-
Individual 2 – with credit	200 000	200 000	9.4%	12 480	6 285	12 480

Research on the effect of the reform that converted the medical aid tax deduction to a tax credit found that the reform decreased the regressivity of the policy.³³ However, individuals may also claim additional medical expenditures against their tax liability. This includes additional qualifying medical expenses not covered by the medical scheme. Calculation formulas of the allowed additional medical expenditures tax credit depend on the taxpayer's age, and disability of the taxpayer or any of their dependents. The authors found this policy continues to be regressive, resulting in greater inequality across income groups. In addition, they find that more men claim medical aid tax credits and additional medical expenses tax credits than women.

Despite the improvements to the system made by reforming the medical aid tax deduction to become a tax credit, the policy continues to disproportionately benefit higher income earners. Figure 5 illustrates this by showing that the average medical aid tax credit claimed increases sharply with income level.

In addition to the regressivity of the medical aid tax credit, questions regarding the purpose of the policy need to be asked. South Africa has an extensive public health care system. Services are charged based on income level, set at very affordable rates, with most South Africans accessing care at no cost. The quality of services vary, with some facilities providing very poor quality care, and users generally face long waiting times. High earners therefore opt for using private services, joining medical aid schemes to cover the high cost of doing so. Approximately 16% of South Africans are members of a medical aid with very few low income individuals represented.

It is unjust for the state to provide a grant to the minority of privileged South Africans who can afford to opt out of public care.

Below: Figure 5: Average medical aid tax credit by income group.³⁴
Figures shown in R 1000's.



In a context where public health care is available to all, and only a minority of privileged South Africans can afford to opt out of public care, it seems unjust for the state to subsidise such a privilege. In addition, it distances citizens from public institutions, causing them to become detached from public health considerations. The forgone tax revenue could be spent on improving public health care. Such a shift would increase the overall redistributive effect of the national budget.

In this context there have been numerous calls from civil society to abolish the medical aid credit rebate. **AIDC supports the call to abolish the medical aid credit rebate.** Removal of the credit for medical scheme membership as well as additional medical expenses would increase revenue by approximately R30 billion every year (see Table 10 above). Some of the privileged 16% medical aid members are also members of the middle class. While such a change will worsen the cost of living crisis for these individuals, this alone cannot justify providing what is essentially a form of government grant on the basis of medical aid membership. The medical aid credit rebate is a poorly targeted way of easing the cost of living for the middle class.

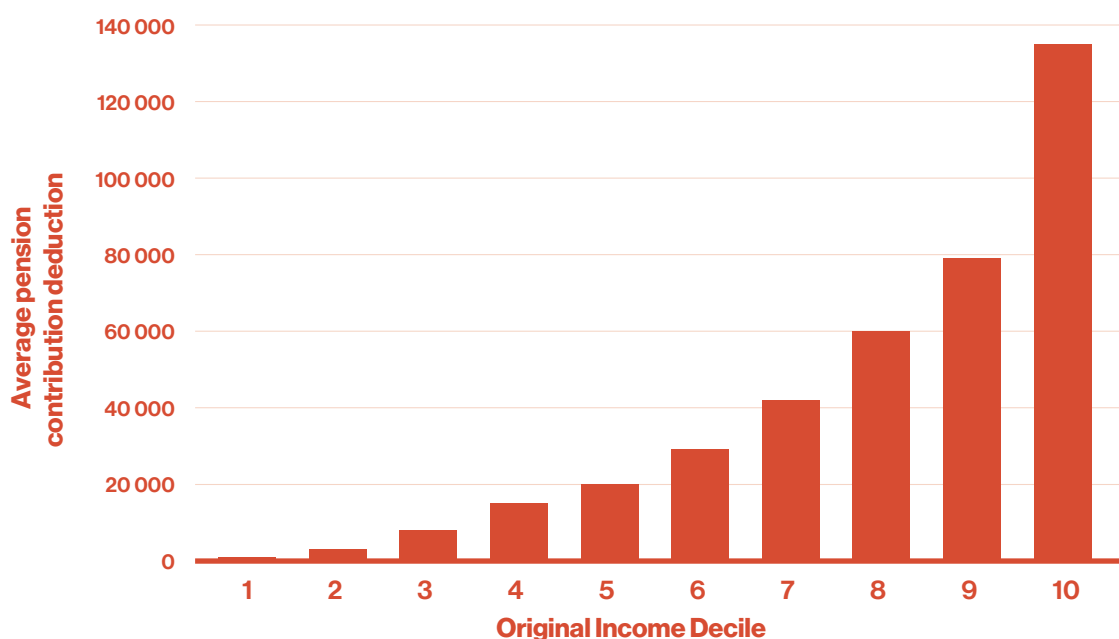
RETIREMENT CONTRIBUTION DEDUCTION

Similar concerns exist for the retirement contribution tax deduction. Unlike the medical tax credit, contributions to retirement funds are a tax deduction, deductible from taxable income. The allowable tax deduction is the lesser of R350 000 per annum, or 27.5 per cent of taxable income. It is rare for individuals to deduct the maximum allowable amount.³⁵

The current structure of the retirement contribution tax deduction benefits higher-income taxpayers because 1) they are financially able to save larger amounts towards retirement, and 2) tax deductions benefit individuals with higher effective tax rates (higher earners) disproportionately. Figure 6 illustrates how average pension contribution deductions increase with the level of income.

For personal income taxpayers reporting taxable income exceeding R1.5 million per annum, the average deduction amounted to R175 193 in 2020. The value of this deduction, at a marginal tax rate of 45%, is substantially higher than that afforded to taxpayers contributing closer to the average retirement deduction, who typically face a marginal tax rate of 26%.

Below: Figure 6: Average pension fund contribution deduction by income group in 2020.³⁶



Research shows that the current policy “reduce(s) the overall progressivity of the personal income tax system”³⁷ and contributes to exacerbating inequality. Redonda and Axelson’s analysis of South Africa’s 2016 pension reforms showed no impact on the regressive nature of this tax benefit.³⁸ In this context, there have been calls to remove this deduction for high-earning individuals.³⁹ However, this poses a double taxation problem, as retirement fund benefits are taxed⁴⁰. Jansen studied various options to mitigate the regressive nature of the retirement deduction, finding that eliminating the deduction entirely makes the PIT distribution less progressive.⁴¹ As discussed, a complete elimination of the deduction would also require additional policy changes in the way retirement benefits are taxed, to avoid double taxation.

Changing the pension fund contribution deduction to a credit would improve the progressivity of PIT and raise R23 billion in additional revenue.

Jansen finds that changing the deduction to a credit at a conversion rate of 26% (or the second tax bracket) would improve the progressivity of PIT and raise R23 billion in additional PIT revenue.

While the credit decreases the tax benefit for high-income earners, we do not expect them to save significantly less, considering their current saving habits. Although these incentives aim to encourage retirement savings, several studies suggest that tax incentives don’t lead to increased new savings. Attanasio⁴² in the US and UK, and Ayuso⁴³ in Spain, found little evidence of new savings generated by these incentives. Chetty⁴⁴ in Denmark noted that reduced pension subsidies for high earners led to decreased contributions, but this was largely substituted by other forms of saving and involved a small fraction of contributors. In addition, given that very few individuals contribute the maximum allowable amount, it is possible that a reform that diminished the tax deduction benefit would not cause large decreases to savings.

Given a similar reform was made to medical aid deductions, this reform should be administratively and politically possible.

In addition, the R23 billion additional revenue per annum would provide a significant contribution to domestic resource mobilisation. AIDC, therefore, recommends **changing the deduction to a credit at a conversion rate of 26%** (or the second tax bracket) to increase the progressivity of PIT and raise R23 billion in additional PIT revenue.

GENDER AND DEDUCTIONS

While SARS does not report gender-disaggregated data for deductions, Smith⁴⁵ argues that men are more likely to benefit from tax benefits given for medical aid contributions, as they are, in most cases, the main members of medical aids. The medical aid rebate may only be claimed by the main member of a medical aid, and is available for contributions made to the medical scheme on behalf of all dependents, regardless of whether or not the dependents pay their own contributions. Similarly, Budlender⁴⁶ argues that men are more likely to receive larger employer contributions to medical aid, allowing them to claim significant tax benefits that women are less likely to obtain. Nhamo⁴⁷ confirms this in their analysis of SARS data, finding that 55% of medical aid credit rebates were claimed by men.

Table 8 above shows that 67% of the benefits of PIT tax deductions accrue to taxpayers with an income above R500 000. Table 13 on the next page reveals that men are severely overrepresented in this income group, making up 62% of its taxpayers. Men are therefore more likely to benefit in respect of PIT tax deductions.

Majority of the benefits of tax deductions accrue to wealthy men.

Self-employed individuals may deduct any trade-related expenses which they incur. While this policy is sensible, it can also lead to unintended consequences. For instance, deductions for personal consumption expenses, such as certain meals, travel, and luxury office furnishings, can provide tax-free benefits, particularly for higher-income individuals, who are more likely to be self-employed, especially men. Overall, women made up only 34.5% of self-employed individuals.⁴⁸

Below: Table 13: Taxpayers by taxable income group and gender, 2022. ^{49, 50}

Taxable Income group	Women		Men		Total
	Number	%	Number	%	
<= 0	93 339	44%	120 389	56%	213 728
1–70 000	502 203	52%	462 714	48%	964 917
70 001–350 000	1 370 203	50%	1 381 079	50%	2 751 282
350 001–500 000	473 473	53%	421 522	47%	894 995
500 000 +	445 488	38%	719 377	62%	1 164 865
Total	2 884 706	48%	3 105 081	52%	5 989 787

CAPITAL GAINS TAX

A capital gain arises when an asset is disposed of for proceeds that exceed its base cost. Capital Gains Tax (CGT) applies to individuals, trusts, and companies.

South African residents⁵¹ are liable for CGT on assets located both within and outside of South Africa. Non-residents are liable for CGT only on South African immovable property, or assets belonging to a “permanent establishment” (branch) within the country. Certain indirect interests in immovable property, such as shares in a property company, are treated as immovable property for CGT purposes. Certain entities, such as retirement funds, are fully exempt from CGT. Public benefit organisations may receive full or partial exemptions⁵².

CGT has several specific exclusions, including:

- A R2 million gain or loss on the sale of a primary residence.
- Most assets for personal use.
- Retirement benefits.
- Payments from original long-term insurance policies.
- Annually, R40,000 for capital gains or losses for individuals and special trusts.
- For small business, R1.8 million for individuals (at least 55 years old) when selling a small business with a market value of R10 million or less.
- In the year of their death, R300,000 for individuals, instead of the annual exclusion.

Capital gains are subject to an inclusion rate. For individuals, only 40%, and for companies 80%, of the nominal capital gain is taxed. Proponents of the inclusion rates argue that, in the absence of inflation indexing, a 100% inclusion rate would cause taxation of inflationary increases in the value of assets, when only real increases in the value of assets should be taxed. Table 14 summarises the inclusion rates and tax rates applicable to different entities.

Capital gains are taxed as normal income (CIT/PIT) and at the same applicable rate (See Appendix E: Global tax rates, Table 41). In order to compare across entities, the effective rate on the full nominal capital gain is calculated (inclusion rate x tax rate).

Over time, CGT rates have progressively increased, leading to higher effective tax rates on nominal gains. Despite this, CGT share of total tax revenue has remained stagnant, reaching its high point in 2009/10 at 1.73% (see Table 15).

Below: Table 14: Capital Gains Tax rates. ⁵³

Year	Individuals and Special Trusts ¹⁵⁷	Companies	Other Trusts
Inclusion rate (%)			
2001-2012	25	50	50
2013-2016	33	67	67
2017-2025	40	80	80
Tax Rate (%)			
2001-2012	0-10	29	20.0
2013-2016	13.3	28	18.6
2017	16.4	28	32.8
2018-2022	18.0	28	36.0
2023-2025	18.0	27	36.0
Effective Tax Rate on Nominal Gains (%) (Inclusion Rate x Tax Rate)			
2001-2012	0-2.5	14.5	20.0
2013-2016	4.4	18.6	18.6
2017	6.6	22.4	32.8
2018-2022	7.2	22.4	36.0
2023-2025	7.2	21.6	36.0

Below: Table 15: Revenue from Capital Gains Tax. ⁵⁴

R million	Individuals	Companies	Total	SARS Total Revenue	Share of Tax Revenue	Nominal GDP	CGT as % of GDP
2007/08	1167	2 494	3 661	572 815	0.64%	2 409 261	0.15%
2008/09	3 807	4 136	7 943	625 100	1.27%	2 658 156	0.30%
2009/10	4 357	6 023	10 380	598 705	1.73%	2 843 029	0.37%
2010/11	2 012	7 049	9 061	674 183	1.34%	3 123 336	0.29%
2011/12	1 550	5 263	6 813	742 650	0.92%	3 391 162	0.20%
2012/13	2 166	5 008	7 174	813 826	0.88%	3 633 648	0.20%
2013/14	6 970	4 633	11 603	900 015	1.29%	3 945 369	0.29%
2014/15	5 538	6 135	11 672	986 295	1.18%	4 200 741	0.28%
2015/16	7 526	9 155	16 681	1 069 983	1.56%	4 498 913	0.37%
2016/17	9 638	7 422	17 061	1 144 081	1.49%	4 831 200	0.35%
2017/18	10 015	7 609	17 623	1 216 464	1.45%	5 138 407	0.34%
2018/19	9 534	8 339	17 872	1 287 690	1.39%	5 425 437	0.33%
2019/20	6 356	7 713	14 069	1 355 766	1.04%	5 709 241	0.25%
2020/21	8 440	7 928	16 368	1 249 711	1.31%	5 616 352	0.29%
2021/22	7 714	8 487	16 201	1 563 754	1.04%	6 325 590	0.26%
2022/23	9 752	12 472	22 223	1 686 697	1.32%	6 763 457	0.33%
2023/24	8 868	12 453	21 322	1 740 870	1.22%	7 094 783	0.30%

Despite the high levels of wealth inequality, CGT rates for South Africa are considered low by global standards. Table 16 compares South Africa to neighbouring countries and comparable economies.

Below: Table 16: Capital Gains Tax rates for comparable economies. ⁵⁵

Territory	Headline capital gains tax rate (%)	
	Corporate	Individual
Botswana	Normal CIT rate (22%).	25%
Brazil	15% (34% including surtax)	22.50%
Egypt	0, 10, or 22.5%	0, 10, or 27.5%
Kenya	15%	15%
Malawi	Normal CIT rate (30%).	Normal PIT rate.
Mexico	30%	-
Mozambique	Normal CIT rate (32%).	Normal PIT rate.
Nigeria	10%	10%
South Africa	80% Inclusion Rate: 21.6%	40% Inclusion Rate: 18%
Uganda	Normal CIT rate (30%).	40%

South Africa stands out as having some of the lowest rates, with Botswana, Brazil, Malawi, Mexico, Mozambique, and Uganda all applying higher CGT rates.

One possible treatment of capital gains is to apply inflation indexing. **Research needs to be done on whether the current system of inclusion rates applied to capital gains accounts for inflationary increases in the value of assets in a fair way.** For example, if inclusion rates are too low, only a part of the full real return and income earned from the asset will be taxed. In addition, research needs to be done on whether inflation indexing would lead to more or less revenue collected from CGT. Under the current rates in South Africa, CGT raised only R21 billion in 2023/24, a mere 1.17% of tax revenue and 0.3% of GDP.

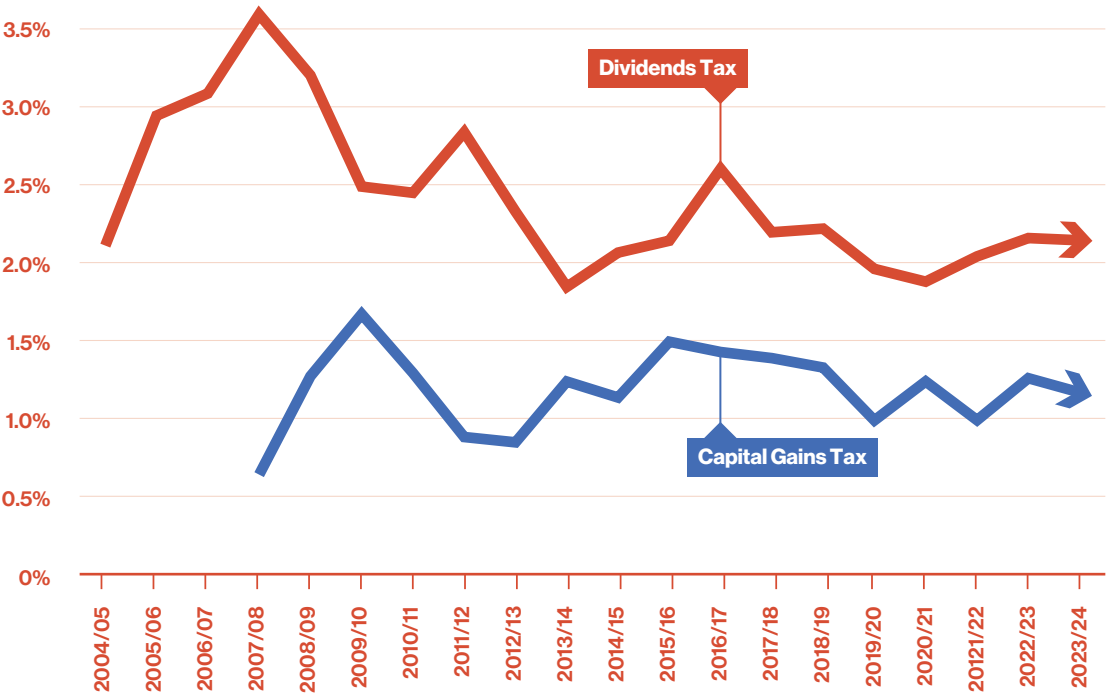
Another element to be considered in the design of capital gains tax is holding periods. These classify capital gains as either short-term or long-term, depending on the duration of the holding of an asset. In the United States, for instance, assets held for one year or less generate short-term gains, which are typically taxed at ordinary income rates, potentially reaching up to 37%. Conversely, assets held for more than one year yield long-term gains, which benefit from lower, preferential tax rates, often ranging from 0% to 20%. India also employs a differentiation between short-term and long-term gains, with varying holding periods depending on the asset

class; for example, listed assets may have a 12-month threshold, while unlisted assets like land or buildings require a 24-month holding period to qualify as long-term. France also incorporates holding periods into its CGT framework, offering rebates on taxable gains for securities acquired before 2018 and for real estate, where longer holding periods result in greater tax relief. **Research needs to be conducted on the application of holding period differentiations for South Africa, particularly the provision of higher rates for short-held assets, to incentivize long-term investment and discourage short-term speculative trading.**

DIVIDENDS TAX

Dividends Tax is a tax levied on shareholders (beneficial owners) when they receive dividend payments. Typically, this tax is withheld directly from the dividend payment by the entity distributing the dividend. In 2017 the Dividends Tax rate increased from 15% to 20%.⁵⁶ Figure 7 and Table 17 below show the contribution of CGT and Dividends to total tax revenue.

Below: Figure 7: CGT and Dividends Tax as a proportion of total tax revenue.



Below: Table 17: Dividends Tax. ⁵⁷

Year	Dividend Tax	SARS Total Revenue	Share of Tax Revenue	Nominal GDP1	Dividends Tax as % of GDP
2004/05	7 487	354 979	2.11%	1 691 286	0.44%
2005/06	12 278	417 196	2.94%	1 885 724	0.65%
2006/07	15 291	495 549	3.09%	2 135 550	0.72%
2007/08	20 585	572 815	3.59%	2 409 261	0.85%
2008/09	20 018	625 100	3.20%	2 658 156	0.75%
2009/10	15 468	598 705	2.58%	2 843 029	0.54%
2010/11	17 178	674 183	2.55%	3 123 336	0.55%
2011/12	21 965	742 650	2.96%	3 391 162	0.65%
2012/13	19 739	813 826	2.43%	3 633 648	0.54%
2013/14	17 309	900 015	1.92%	3 945 369	0.44%
2014/15	21 247	986 295	2.15%	4 200 741	0.51%
2015/16	23 934	1 069 983	2.24%	4 498 913	0.53%
2016/17	31 130	1 144 081	2.72%	4 831 200	0.64%
2017/18	27 894	1 216 464	2.29%	5 138 407	0.54%
2018/19	29 898	1 287 690	2.32%	5 425 437	0.55%
2019/20	27 930	1 355 766	2.06%	5 709 241	0.49%
2020/21	24 845	1 249 711	1.99%	5 616 352	0.44%
2021/22	33 429	1 563 754	2.14%	6 325 590	0.53%
2022/23	38 119	1 686 697	2.26%	6 763 457	0.56%
2023/24	39 173	1 740 870	2.25%	7 094 783	0.55%

Dividends tax contributed R39 billion to tax revenue in 2023/24 or 2.14% of total tax revenue, equivalent to 0.55% of GDP. Despite the 2017 increase in the tax rate, share of revenue from dividends tax shows a broadly decreasing trend over time.

Dividend Tax forms part of a larger category of withholding taxes. Table 18 compares South Africa’s withholding tax rates to its neighbours and similar economies.

Below: Table 18: Global Withholding Tax Rates.⁵⁸
* Non-residents from tax havens pay 25% on interest and royalties.

Territory	WHT rates (%)					
	Residents			Non-residents		
	Dividends	Interest	Royalties	Dividends	Interest	Royalties
Botswana	10	10	10	10	15	15
Brazil*	NA	15-22.5	NA	0	15	15
Egypt	5 or 10	NA	NA	5	10	20
Kenya	5	10	25	15	20	25
Malawi	10	20	20	15	15	15
Mexico	10	0.08	NA	10	4.9 - 35	5 - 35
Mozambique	20	20	20	20	20	20
Nigeria	10	10	10	10	10	10
South Africa	20	0	0	20	15	15
Uganda	15	15	NA	15	15	15

Compared to other countries, South Africa’s withholding taxes on residents is structured differently, as the withholding tax rate on interest and royalties is 0%. This is because royalties and interest earned are taxed under PIT/CIT as part of taxable income.

With investment income, while some forms of interest income are subject to third-party reporting,⁵⁹ many sources of investment income are not, leaving opportunity for taxpayers to evade taxes. **AIDC recommends that all forms of interest income are subject to third-party reporting.**

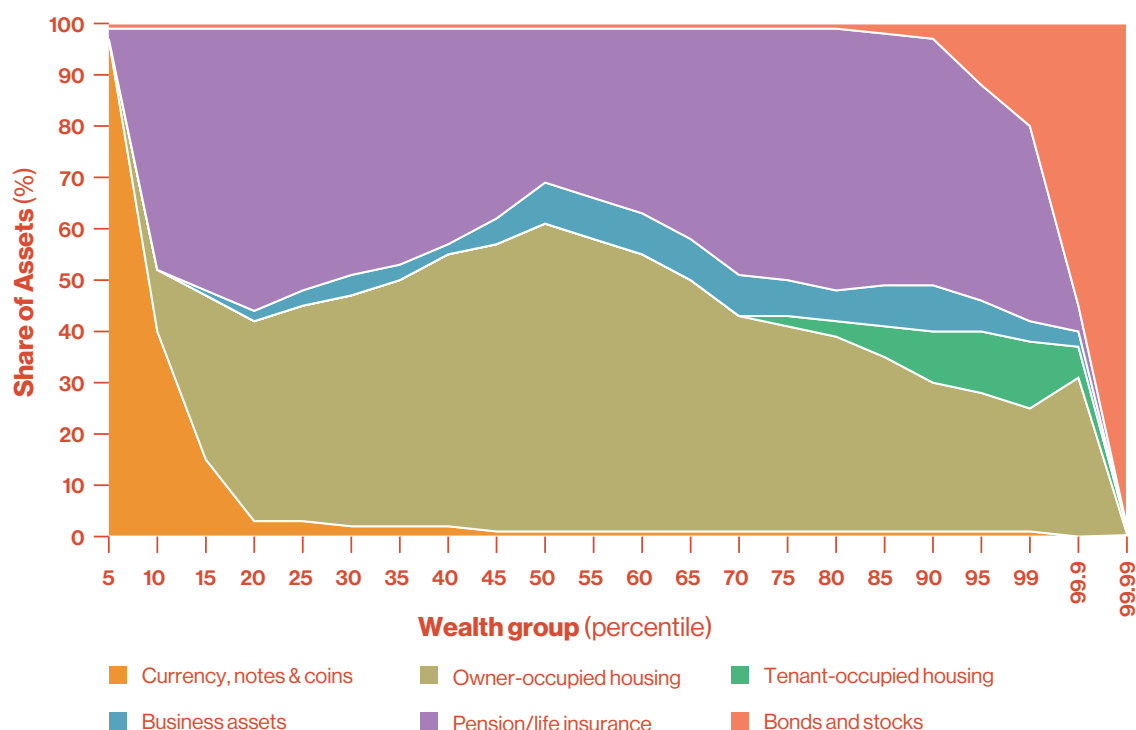
Many countries treat dividend income preferentially by taxing it at a lower rate than other forms of income. One of the most common rationales provided for such treatment is that it encourages investments.

However, this significant gap between Income Tax (PIT and CIT) rates and Dividends Tax rates allows wealthy people - who earn significant passive income from their assets rather than from salaries or sales - to pay lower effective tax rates on their income than the working class pay on their employment income. This entrenches class differences and exacerbates inequality.

Figure 8 illustrates how ownership of dividend paying assets, such as bonds and stocks, is heavily biased towards the wealthiest.

Taxing dividends presents a significant policy challenge. On the one hand, taxing income derived from wealth, as opposed to labour, is a crucial tool for wealth redistribution. This is particularly vital in a country like South Africa, which faces extreme levels of often historically racially-based wealth inequality. On the other hand, investment is essential for economic growth and for addressing high unemployment rates. Many argue that a high Dividends Tax rate deters investment. This raises a key question: would an increase in the Dividend Tax rate be detrimental to investment in productive industries?

To understand this issue, we can conceptualise productive investment as a two-step process: 1) Savings to equity: individuals and corporations must be incentivised to invest their savings into equity. 2) Equity to productive use: the companies receiving this equity must then use it for productive purposes, such as capital improvements, expansion, research and development, or increased wages.



Above: Figure 8: The composition of assets by wealth group in 2017.⁶⁰

Some argue that lower taxes on dividends actually encourage companies to pay out profits to shareholders rather than reinvesting them. When firms retain profits, they can better allocate capital and labour to improve revenues, as research by Mncube⁶¹ and Matray and Boisel⁶² suggests. Therefore, a higher dividends tax could incentivise more productive investment by companies.

This positive effect, however, is only possible if a higher dividends tax rate does not simultaneously discourage savings from being invested into equity in the first place. Interestingly, higher dividend tax rates can also be beneficial in this regard. Policy could be designed with differential dividend rates to specifically encourage investment in productive, labour-intensive industries, while disincentivising investment in sectors like finance, insurance, and real estate, that cause financialisation of the economy and provide little prospects in terms of large-scale job creation for South Africans. Creative policy design and progressive tax structures are viable options to achieve this goal.

For example, in Brazil, corporations are subject to a 15% statutory CIT rate. However, this rate is supplemented by a 10% surtax

on annual income exceeding BRL 240 000. Furthermore, a 9% Social Contribution Tax (CSLL) is imposed on adjusted net income. This CSLL rate varies for certain sectors: financial institutions pay a 20% CSLL, while insurance companies, foreign exchange brokers, credit cooperatives, and other similar entities face a 15% CSLL⁶³. Similar flexible structures applied to Dividends Tax may be effective in increasing its progressivity, while adjusting the approach for each industry, to ensure sufficient incentive to invest, especially for industries that are labour-intensive and show potential to increase employment. Targeted tax incentives for specific sectors, that allow certain companies to qualify for a reduced Dividends Tax, may be a better way to achieve the desired outcome, compared to differing rates based on industry classification.

Preferential treatment for dividend income also presents gender issues, as men are more likely than women to access capital and receive capital and dividend income, particularly at higher wealth and income levels where dividend income is concentrated.⁶⁴ For example, in South Africa, men own 52% of agricultural land, women own 34%, and the gender of the remaining 14% of owners is unknown.⁶⁵ Despite limited data, it is recognised that women in South Africa and globally own fewer assets than men, and

those assets tend to be of lower value.⁶⁶ This disparity is further evidenced by the fact that the majority of high-income earners in South Africa are male, a trend supported by tax statistics (see Table 9 above). The implication is that men are more likely to earn income in the form of capital gains and dividends than women are. If capital gains and dividends are taxed at a lower rate than other forms of income, men will face a lower effective tax rate on their total income than women.

Research suggests that women may exhibit different investment preferences from men. Factors such as societal expectations and the disproportionate burden of caregiving responsibilities often placed on women may influence these preferences. For instance, women may be more inclined towards investments with lower volatility and steadier income streams, such as bonds or dividend-paying stocks, rather than riskier assets like high-growth equities. This preference may stem from a desire for financial stability and predictability, particularly for those with caregiving responsibilities. Conversely, men may be more likely to invest in riskier assets that produce capital gains and higher dividend payments, disproportionately benefiting from lower capital gains and dividend tax rates.⁶⁷

Research suggests that certain high-income occupations, such as entrepreneurial roles, positions in high-tech and finance, and CEO positions, are often male-dominated.⁶⁸ These roles frequently involve compensation packages that include share incentives, which can generate significant capital gains and dividends. In this context, the lower tax rate applied to capital gains and dividends may disproportionately benefit this group of high income earners, who are mainly men.

Finally, individuals married in community of property are taxed on half of their own interest, dividend, rental income and capital gain, and half of their spouse's interest, dividend, rental income and capital gain.⁶⁹ The income is taxed in this way regardless of the name in which the asset is registered. Therefore, if men have a higher asset ownership, women will disproportionately bear a higher tax burden for their partner's assets. The other income (i.e. salary, freelance income, etc.) is taxed in the normal way, based on who has earned it.

The Withholding Tax on Royalties (WTR) regime, as detailed in Sections 49A to 49H

of the Income Tax Act, specifically targets payments made to non-residents. The very purpose of WTR is to ensure that non-residents, who might not otherwise have a tax presence in South Africa, are taxed on their South African-sourced royalty income.

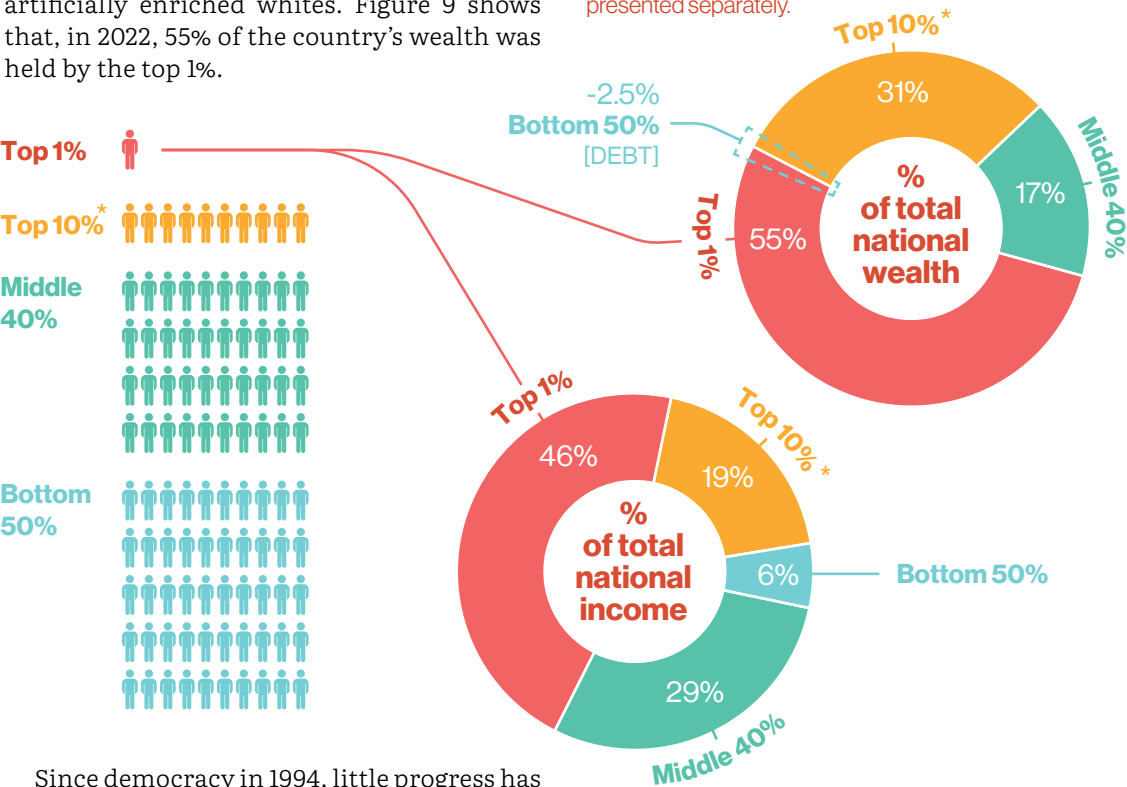
For South African residents, there is no need for a withholding tax because they are already subject to the full scope of South African income tax on their worldwide income (due to South Africa's residence-based tax system, also outlined in the Income Tax Act). Royalties and interest received by a South African resident are simply added to their other income (e.g., salary, business profits, rent) and taxed at the applicable progressive income tax rates for individuals, or the flat corporate income tax rate for companies.

Taxing interest and royalties earned as part of a person's income which is subject to PIT/CIT is preferable to a flat rate as it allows for a progressive structure. On this, South Africa's approach compared with other comparable countries is better. Taxing dividend income as a part of a person's total income subject to PIT/CIT would therefore also be preferable, to achieve better progressivity. It also would have the advantage that it does not provide a lower rate of tax for dividend income than other forms of income. **AIDC recommends that dividend income received by residents is taxed with other forms of income instead of at a flat rate.**

For a resident individual this would mean dividends are taxed at their marginal tax rate. For a resident company this would mean taxation at the statutory CIT rate. Dividend income currently faces the advantage of high levels of compliance, as the dividend tax is withheld directly from the dividend payment by the entity distributing the dividend. Incorporating dividend income under CIT/PIT should not put a stop to this system. Rather, it should result in an additional tax liability for the taxpayer whose liability at their effective CIT/PIT rate exceeds the withholding tax rate. The entity distributing the dividend would be responsible for the payment of 20% of the dividend as Dividends Tax directly to SARS, and the recipient of the dividend would be responsible for the payment of any additional tax, if the effective tax rate on their income is higher than 20%. Dividends Tax rate would therefore have a floor of 20%, with people with higher effective tax rates paying more.

TAXES ON PROPERTY AND WEALTH

Apartheid South Africa systemically stripped people of colour of their wealth, and artificially enriched whites. Figure 9 shows that, in 2022, 55% of the country's wealth was held by the top 1%.



Since democracy in 1994, little progress has been made in redistributing wealth. Figure 10 illustrates how the top 10% have consistently held between 85% and 95% of the wealth in South Africa over the last 30 years. Similarly, the top 1% have held between 50% and 60% of the total wealth.

Below: Figure 10: Wealth shares 1993 - 2018. ⁷¹
* Top10% excluding the top 1%, who are presented separately.

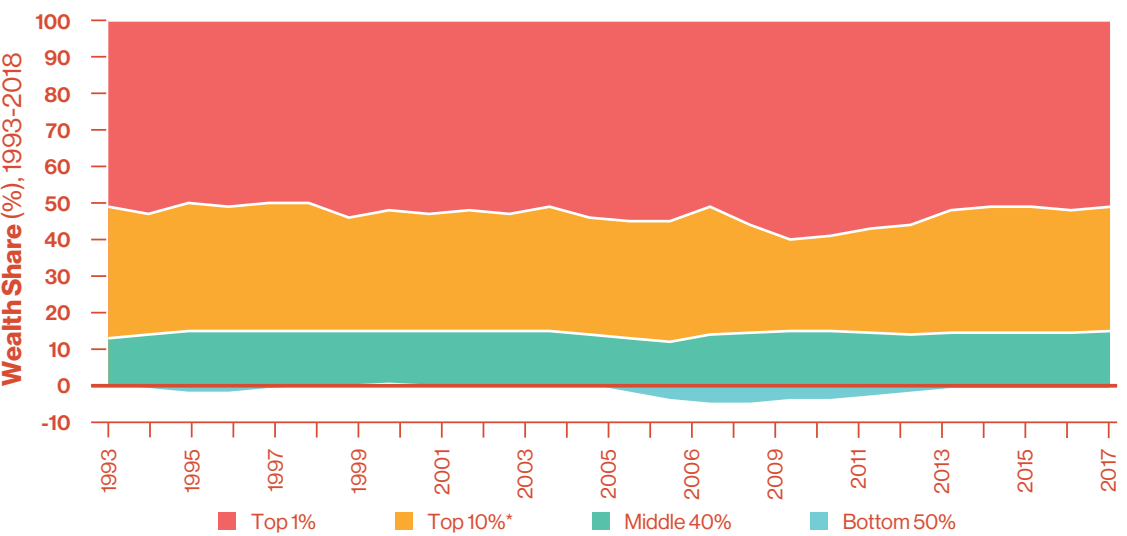


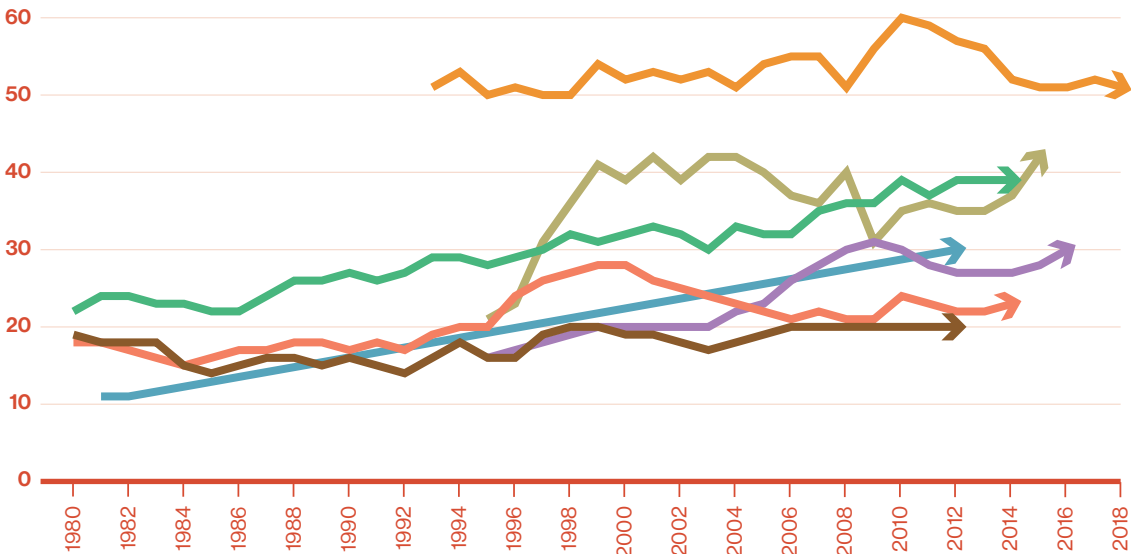
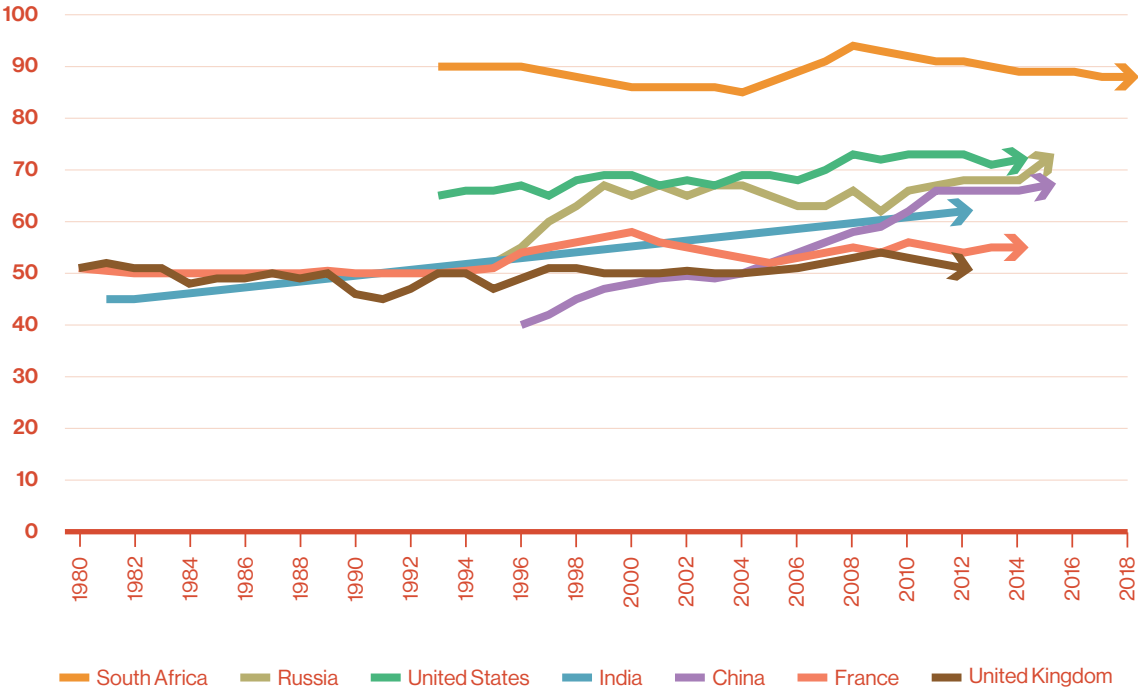
Figure 10 also illustrates how little wealth is owned by the middle 40% and bottom 50% of South Africans. The middle 40% own between 15% and 18% of total wealth, with no improvement over the last 30 years. The bottom 50% have more debt than assets, with a net wealth between 0 and -5% of the total wealth in South Africa. The bottom 50% have seen no improvement in their wealth share since 1993.

Figures 11 and 12 compare South African wealth inequality to other nations.

The top 10% have consistently held between 85% and 95% of the wealth in South Africa over the last 30 years. The bottom 50% have seen no improvement in their wealth share since 1993.

Below: Figure 11: Top 10% Wealth Share.⁷²

Bottom: Figure 12: Top 1% Wealth Share.⁷³



When looking at the top 10% and top 1% wealth share, South Africa's wealth inequality is consistently worse than that of India, Russia, United States, France, United Kingdom and China. So, redistribution of wealth should play a much larger role in South Africa than in these economies.

In the context of the origins of South Africa's wealth inequality and the staggering levels of it, wealth taxes have an important redistributive role to play. Despite lacking a direct net wealth tax, South Africa levies a few taxes on property and wealth, including:

- Municipal Property Tax
- Transfer Duty
- Estate Duty (inheritance tax)
- Donations (gift) tax
- Securities Transfer Tax

Collectively, in 2023/24 these taxes contributed a modest R106 billion — 5.8% of South Africa's total tax revenue,⁷⁴ or 1.5% of GDP see (Table 19).

Between 2009 and 2023, there has been some slow progress in expanding the relative contribution of wealth taxes, with their share of total tax revenue growing slightly from 5.13% of total tax revenue (1.12% of GDP) in 2009/10.

Collectively, in 2023/24, taxes on property and wealth contributed a modest R106 billion, or 5.8% of South Africa's total tax revenue.

Municipal property taxes are the largest of the taxes on property and wealth in South Africa, contributing R87 billion or 4.75% of total tax revenue in 2023/24. Figure 13 illustrates the trends for each of the taxes on property and wealth.

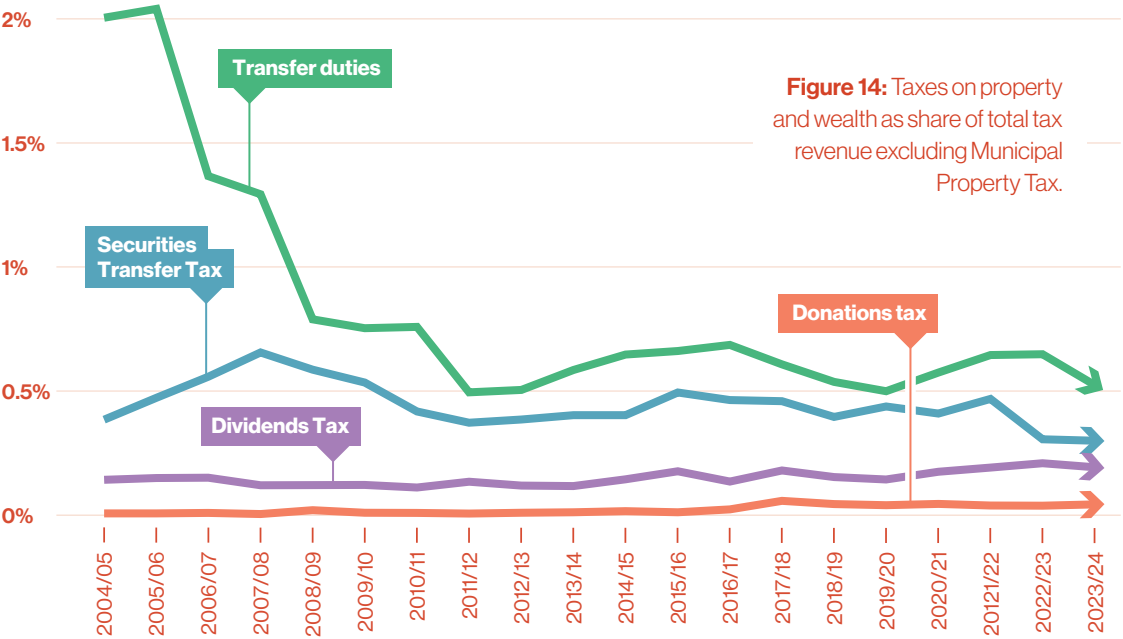
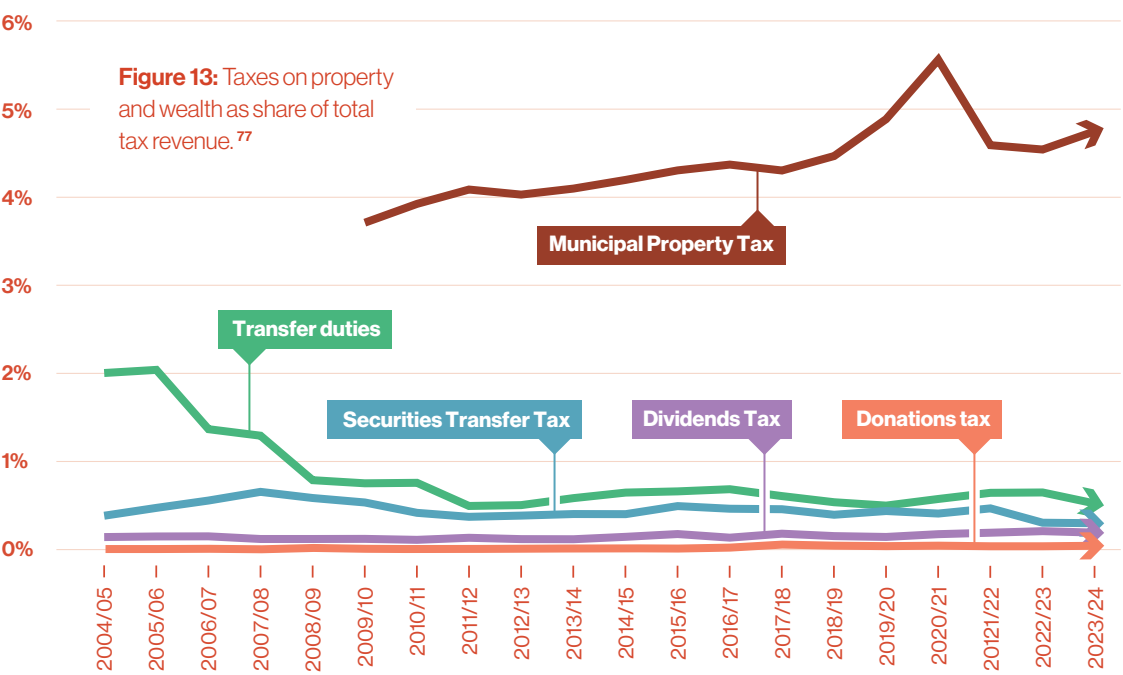
Below: Table 19: Taxes on Property and Wealth.⁷⁵

Year	All Property Taxes	SARS + Municipal Tax Revenue	Share of Tax Revenue	Nominal GDP ¹⁵⁸	Wealth Taxes as % of GDP
2009/10	31 897	621 776	5.13%	2 843 029	1.12%
2010/11	36 643	701 724	5.22%	3 123 336	1.17%
2011/12	39 464	774 296	5.10%	3 391 162	1.16%
2012/13	42 814	847 994	5.05%	3 633 648	1.18%
2013/14	48 944	938 472	5.22%	3 945 369	1.24%
2014/15	55 669	1 029 493	5.41%	4 200 741	1.33%
2015/16	63 182	1 118 120	5.65%	4 498 913	1.40%
2016/17	67 953	1 196 373	5.68%	4 831 200	1.41%
2017/18	71 282	1 271 161	5.61%	5 138 407	1.39%
2018/19	75 462	1 347 900	5.60%	5 425 437	1.39%
2019/20	85 618	1 425 404	6.01%	5 709 241	1.50%
2020/21	89 518	1 323 282	6.76%	5 616 352	1.59%
2021/22	97 276	1 638 997	5.94%	6 325 590	1.54%
2022/23	101 467	1 766 927	5.74%	6 763 457	1.50%
2023/24	106 186	1 827 656	5.81%	7 094 783	1.50%

So, over the last 15 years, the contribution of municipal property taxes has increased at a very sluggish rate from 3.71% in 2009/10. However, the growth in total revenue from this group of taxes is driven by the growth in revenue from municipal property taxes. Collections from all the other taxes on property and wealth have decreased or stagnated, as more clearly illustrated in Figure 14.

Current taxes on property and wealth have shown little progress in addressing

deep-seated inequality in South Africa, collecting only modest amounts of revenue. Furthermore, many of these existing taxes focus on the *transfer* of property, a form of tax that allows for avoidance through tax planning. Substantial research supports the introduction of a net wealth tax on an individual's total assets, highlighting its significant potential to decrease inequality and raise substantial revenue.⁷⁶ AIDC, among others, argue for this more comprehensive tax on the wealthy.



A NET WEALTH TAX FOR SOUTH AFRICA

Discussions around implementing a net wealth tax in South Africa often centre on seven main arguments against it: 1) the wealthy are overtaxed; 2) they cannot afford a tax on their wealth due to low incomes; 3) it will hurt economic growth, 4) it will cause large-scale capital flight; 5) SARS lacks sufficient data for implementation; 6) the cost of implementation will outweigh the revenue; and 7) wealth taxes have not worked internationally.

The claim that the wealthy are overtaxed is directly challenged by global data. The 2024 Global Tax Evasion Report by the EU Tax Observatory shows that, for the very highest percentile of income globally, income tax becomes regressive and can approach zero.⁷⁸ In simple terms, most billionaires worldwide pay negligible income tax relative to their total economic income because they utilise various corporate or trust structures to avoid generating significant taxable income. As the report states, “The fundamental problem is that income flows are difficult to measure and tax for very wealthy individuals, who can

easily structure their wealth so that it does not generate much taxable income.”

In response to this pervasive avoidance, the EU Tax Observatory proposed an internationally coordinated **2% annual tax** on high net worth individuals with at least **\$1 billion** in wealth. It is estimated that this mechanism, presented to the G20, would generate up to **\$250 billion** globally from just 3,000 individuals.

Open Secrets applied this thinking to South Africa’s six dollar-billionaires (Johann Rupert, Nicky Oppenheimer, Koos Bekker, Patrice Motsepe, Michiel le Roux, and Christo Wiese), whose combined wealth is estimated at **R553 billion**, and found that a 2% annual tax would yield approximately **R11 billion** for the fiscus.⁷⁹ This single amount equals more than two years of the National Prosecuting Authority’s annual budget. Crucially, this R11 billion is far less than the nearly **R80 billion** growth in their collective wealth last year, showing that such a tax would be sustainable.⁸⁰ The global average “pre-tax rate of return to wealth for ultra-high-net-worth individuals” over the past 40 years has been 7.5% (net of inflation), demonstrating a capacity to absorb the higher effective tax rate.⁸¹

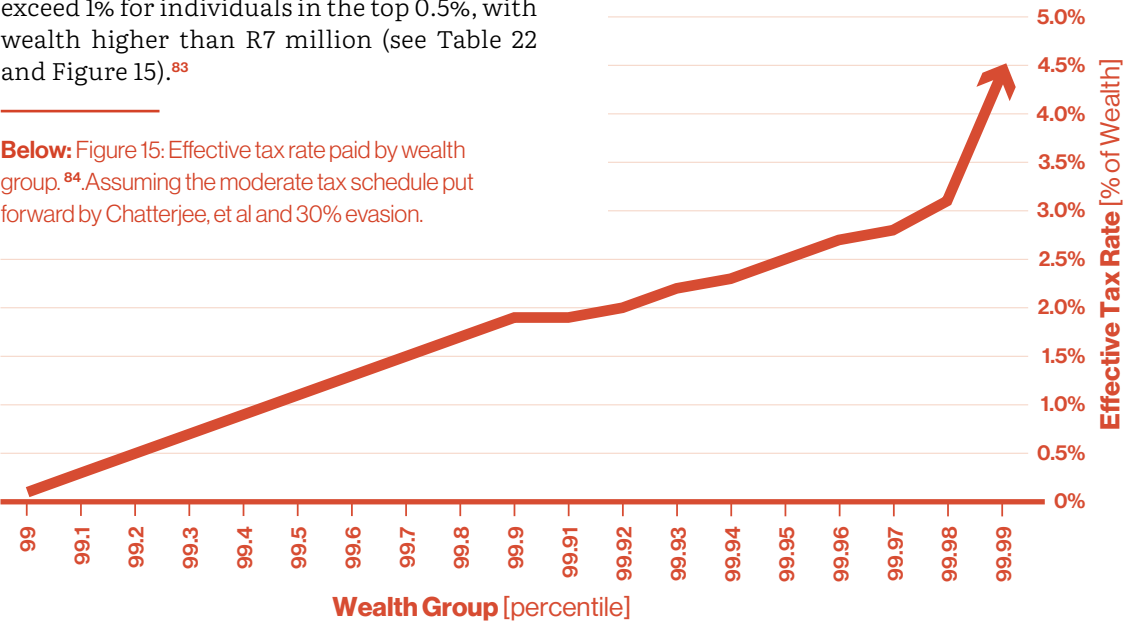
Below: Table 21: Marginal tax rates of tax schedules proposed by Chatterjee et al.⁸²

Wealth group	No. adults	Wealth threshold	Low tax	Moderate tax	High tax
Top 1%	356,000	R 3,820,000	1%	3%	3%
Top 0.1%	35,600	R 30,350,000	2%	5%	7%
Top 0.01%	3,560	R 146,890,000	3%	7%	9%

Wealth rank	Number of adults	Threshold (rands)	Average before tax	Average after tax	Average tax paid	Tax rate
99	35,560	3,670,000	3,890,000	3,890,000	4,700	0.10%
99.1	35,560	4,030,000	4,260,000	4,250,000	12,500	0.30%
99.2	35,560	4,550,000	4,860,000	4,840,000	25,200	0.50%
99.3	35,560	5,150,000	5,520,000	5,490,000	39,000	0.70%
99.4	35,560	5,930,000	6,400,000	6,350,000	57,500	0.90%
99.5	35,560	7,000,000	7,720,000	7,630,000	85,100	1.10%
99.6	35,560	8,910,000	10,260,000	10,120,000	138,000	1.30%
99.7	35,560	11,690,000	13,670,000	13,460,000	210,000	1.50%
99.8	35,560	16,100,000	21,470,000	21,100,000	374,000	1.70%
99.9	3,560	27,310,000	28,420,000	27,880,000	535,000	1.90%
99.91	3,560	29,070,000	29,180,000	28,620,000	562,000	1.90%
99.92	3,560	29,490,000	30,370,000	29,770,000	604,000	2.00%
99.93	3,560	31,960,000	34,100,000	33,360,000	734,000	2.20%
99.94	3,560	36,650,000	39,170,000	38,250,000	911,000	2.30%
99.95	3,560	42,210,000	46,090,000	44,930,000	1,150,000	2.50%
99.96	3,560	50,740,000	55,500,000	54,010,000	1,480,000	2.70%
99.97	3,560	60,790,000	69,920,000	67,940,000	1,990,000	2.80%
99.98	3,560	81,870,000	102,420,000	99,290,000	3,130,000	3.10%
99.99	3,560	118,980,000	393,820,000	376,649,984	17,170,000	4.40%

Chatterjee et al. put forward various options for marginal tax rates as illustrated in Table 21. Based on their moderate tax, and accounting for an assumed 30% evasion, they find that the effective tax rate would only exceed 1% for individuals in the top 0.5%, with wealth higher than R7 million (see Table 22 and Figure 15).⁸³

Below: Figure 15: Effective tax rate paid by wealth group.⁸⁴ Assuming the moderate tax schedule put forward by Chatterjee, et al and 30% evasion.



Above: Table 22: Distribution of the tax burden.⁸⁵ Assuming the moderate tax schedule put forward by Chatterjee, et al and 30% evasion.

The concern that the wealthy cannot afford the tax is further undermined by the fact that the top 1% hold a significant share of their assets in liquid stocks and bonds (see Figure 8), whose average returns (ranging from 7.5% to 17% in South Africa over the last two decades) substantially exceed any proposed tax rate.⁸⁶ Furthermore, the tax proposed by Chatterjee et al., and supported by AIDC, is designed to mitigate liquidity risk:

1. The exemption threshold is high, targeting only the top 1% of wealth owners.
2. The tax is based on marginal tax rates applied only to wealth above the threshold.
3. In the unlikely event that a person could not immediately pay, SARS could allow payment by instalments.⁸⁷

Arguments against taxing wealth often claim it will hurt economic growth. This concern is based on the belief that competitive markets are superior to government in resource allocation and that a new tax discourages investment, leading to sub-optimal economic outcomes.

While elements of these concerns are valid—as they apply to all taxes—taxation and expenditure are fundamental for the very existence and regulation of markets, for providing public goods that markets fail to deliver, and for building the welfare state necessary to protect the nation from economic shocks. Therefore, the core policy question is how much and how to tax.⁸⁸

Chatterjee et al.⁸⁹ argue that tax revenue, when used properly, can actually support economic growth. A wealth tax, for instance, could be growth-enhancing by reducing the national public debt. Lowering public debt to a sustainable level is critical for improving South Africa's risk-rating score, which would allow the country to borrow at lower rates and better attract investment. This revenue can also be used for funding social transfers and economic assistance, enabling individuals and firms severely impacted by economic downturns to recover more quickly, and actively contribute to the economy sooner. Furthermore, Chatterjee et al.⁹⁰ argue that, because wealth is highly concentrated, even among younger generations, signalling the importance of inheritance, a wealth tax could motivate younger, wealthy cohorts to increase their labour income and create their own wealth, instead of relying on passive capital

income. Ultimately, forecasting the net impact of a wealth tax on economic growth is extremely complex, due to the interplay of multiple, often conflicting, mechanisms.⁹¹

Concerns about tax-driven capital flight may be overstated, though the risk warrants further research to explore capital controls that could mitigate it. The ultimate solution, as noted by the international community, is a globally coordinated wealth tax, which would effectively eliminate avenues for the ultra-rich to evade it.

The feasibility of the tax, previously questioned by the Davis Tax Committee due to data constraints⁹², must be re-evaluated against the current data landscape. The successful implementation of a wealth tax is reliant on third-party information. Financial instruments like stocks and bonds are held in a central securities depository (Strate Ltd in South Africa), while banks, custodian banks, and insurers hold data on deposits, bonds, and pension funds. By collecting this information at the source from these institutions, and enabling pre-filled asset declarations, opportunities for avoidance are minimal.⁹³

- **Stocks:** Valuation is straightforward using the open market value (e.g., a three-month moving average). Intermediary agents, which already report data for the Dividends Tax, possess the necessary information on all stock holdings and would only require minor system template adjustments to report valuations to SARS.⁹⁴
- **Bonds:** Interest generated by directly held bonds is already counted as taxable income. Since most bonds are purchased through banks or intermediaries, these institutions already possess the necessary information on bond holdings. They can therefore report bond data, including market values, to SARS in the same way they report equity holdings. Banks specifically are required to submit detailed income reports (like interest, rent, and dividends) via IT3(b) submissions, making this an established channel for collecting the market value data needed for a wealth tax.
- **Pension and retirement funds:** A significant proportion of wealth is held in these funds, which the Davis Tax Committee previously noted have become “relative tax havens for the wealthy.”⁹⁵ Exempting them would render the tax ineffective. Financial service firms already provide clients with fund

- valuations, and these values can similarly be submitted to SARS via third-party reporting.⁹⁶
- **Property:** Valuation is the most challenging area due to inconsistent municipal rolls. However, SARS would not be starting from scratch, as values are required for the Property Tax. A long-term solution involves centralising housing market data, while a short-term approach could explore partnerships with property data companies like Lightstone.⁹⁷
 - **Wealth held abroad:** This is a key challenge. SARS must rigorously scrutinise outward income flows and strongly support international tax transparency reforms, such as the OECD-led Automatic Exchange of Information, and the creation of Ultimate Beneficial Owner registers.⁹⁸

The argument that administrative costs outweigh revenue is weak, given that SARS's total current operating cost for all collections is only about **10%** of the potential revenue from the proposed wealth tax.⁹⁹ Furthermore, the capacity improvements made to implement this tax would have the spillover benefit of making the administration more efficient at collecting current taxes, like Estate Duty.

While often cited as having “failed” internationally, research shows the experience is complex. Past European wealth taxes were undermined by weak administration and reliance on uncorroborated self-reported wealth, leading to high administrative costs and evasion.¹⁰⁰ Success stories, however, demonstrate their utility: Argentina’s one-off tax was crucial for pandemic funding,

and France’s historic Impôt de Solidarité sur la Fortune (ISF) financed its social safety net. The key to success is administrative capacity - to collect the tax and aggressively curb avoidance - supported by international cooperation.¹⁰¹

To be effective and equitable, a wealth tax should follow specific design principles:

1. **Exclusions:** All forms of assets, including housing and pension funds, must be covered to avoid economic distortions and “rent-seeking” behaviour. The tax must be on **net wealth** (assets minus debts).¹⁰²
2. **Targeting:** A high exemption threshold is necessary to prevent the problem of the “illiquid” taxpayer. AIDC (and many others) propose to cover only the **top 1%** of wealth owners (about 350,000 individuals). For example, this would have implied a threshold of R3.8 million in 2017 (see Table 20).¹⁰³ The threshold would need to be recalculated at the time of implementation.
3. **Recurrence:** The tax could be recurring (annual) or a non-recurring capital levy, with different implications for marginal tax rates and behavioural responses. AIDC advocates for a **recurring** wealth tax, which, while typically requiring relatively lower marginal tax rates, is considered a more efficient strategy for limiting or decreasing wealth concentration over the long term. The marginal tax rates for this recurring tax could also be structured to vary over time, for example starting at a higher rate and then becoming progressively lower in subsequent years.¹⁰⁴

Below: Table 20: The distribution of personal wealth in South Africa in 2017. * Wealth is given in 2018 Rands. ¹⁰⁵

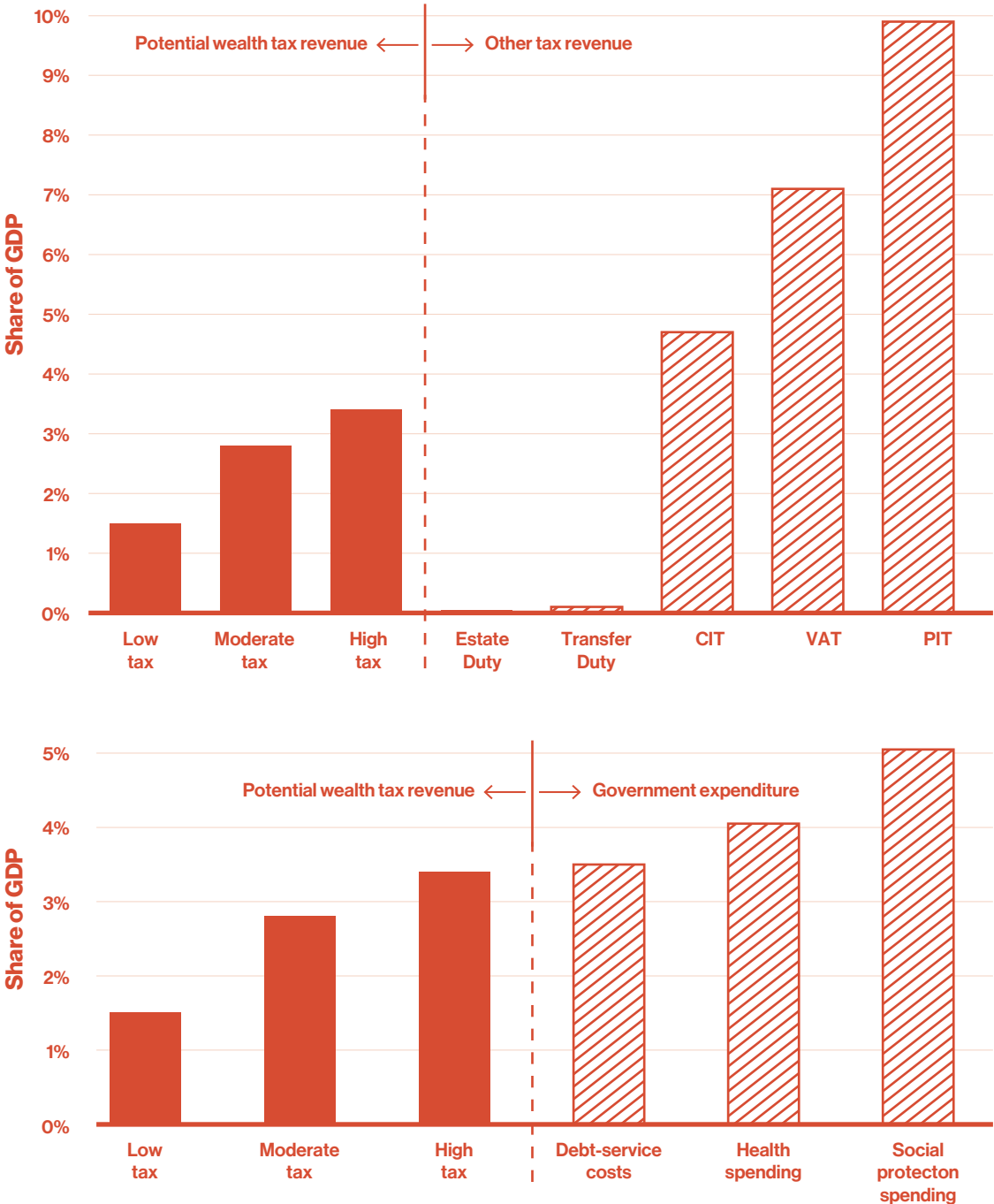
	Number of adults	Wealth threshold	Average Wealth	Total Wealth (billions)	Wealth Share	Wealth as % of GDP
Full population	35 600 000		R326 000	R11 600	100%	249.20%
Bottom 90%	32 040 000		R52 300	R1 700	14.40%	36.00%
Bottom 50%	17 800 000		-R16 000	-R300	-2.50%	-6.10%
Middle 40%	14 240 000	R27 700	R138 000	R2 000	16.90%	42.10%
Top 10%	3 560 000	R496 000	R2 790 000	R9 900	85.60%	213.20%
Top 1%	356 000	R3 820 000	R17 830 000	R6 300	54.70%	136.40%
Top 0.1%	35 600	R30 350 000	R96 970 000	R3 500	29.80%	74.20%
Top 0.01%	3 560	R146 890 000	R486 200 000	R1 700	14.90%	37.20%

Chatterjee et al. estimate that, accounting for evasion, a moderate wealth tax with rates ranging from 3% to 7% could raise an estimated **R70 billion to R160 billion** (in 2018 rand terms) annually, or **1.5% to 3.5% of GDP**. In the benchmark scenario, this is approximately **R134 billion**, which in 2017 was about two-thirds of corporate income tax revenue and 40% of VAT revenue (see Figure 16). In 2017, this revenue would be sufficient to cover some 85% of debt-service costs and about 60% of all social protection expenditures (see Figure 17).¹⁰⁶

Finally, to give a net wealth tax the best chance at success, it must be combined with a concerted effort by the state to tackle corruption to ensure high tax morale.

Below: Figure 16: Potential wealth tax revenue relative to other tax revenue in South Africa, 2017.¹⁰⁷

Bottom: Figure 17: Potential wealth tax revenue relative to government spending in South Africa, 2017.¹⁰⁸



Municipal Property Tax

Real property (land and buildings) is taxed in South Africa; however, it's important to clarify that there isn't a national property/land tax, despite the unequal distribution of land. Instead, property taxes are levied by local municipalities. Municipal rates are the main real property tax. They are essentially a local tax charged by municipalities based on the value of the property. This system allows wealthier areas to generate greater income than poorer areas. Municipal budgets fund law enforcement, fire and disaster services, traffic services, free and subsidised water and electricity services for indigent households, infrastructure, parks, libraries and public transport.

The current system perpetuates inequality between municipalities and needs to be rethought. There have been suggestions that revenue raised by municipalities should be nationally pooled and distributed in a fair way.

Figure 18 shows that the share of municipal revenue from property taxes has increased slightly over time.

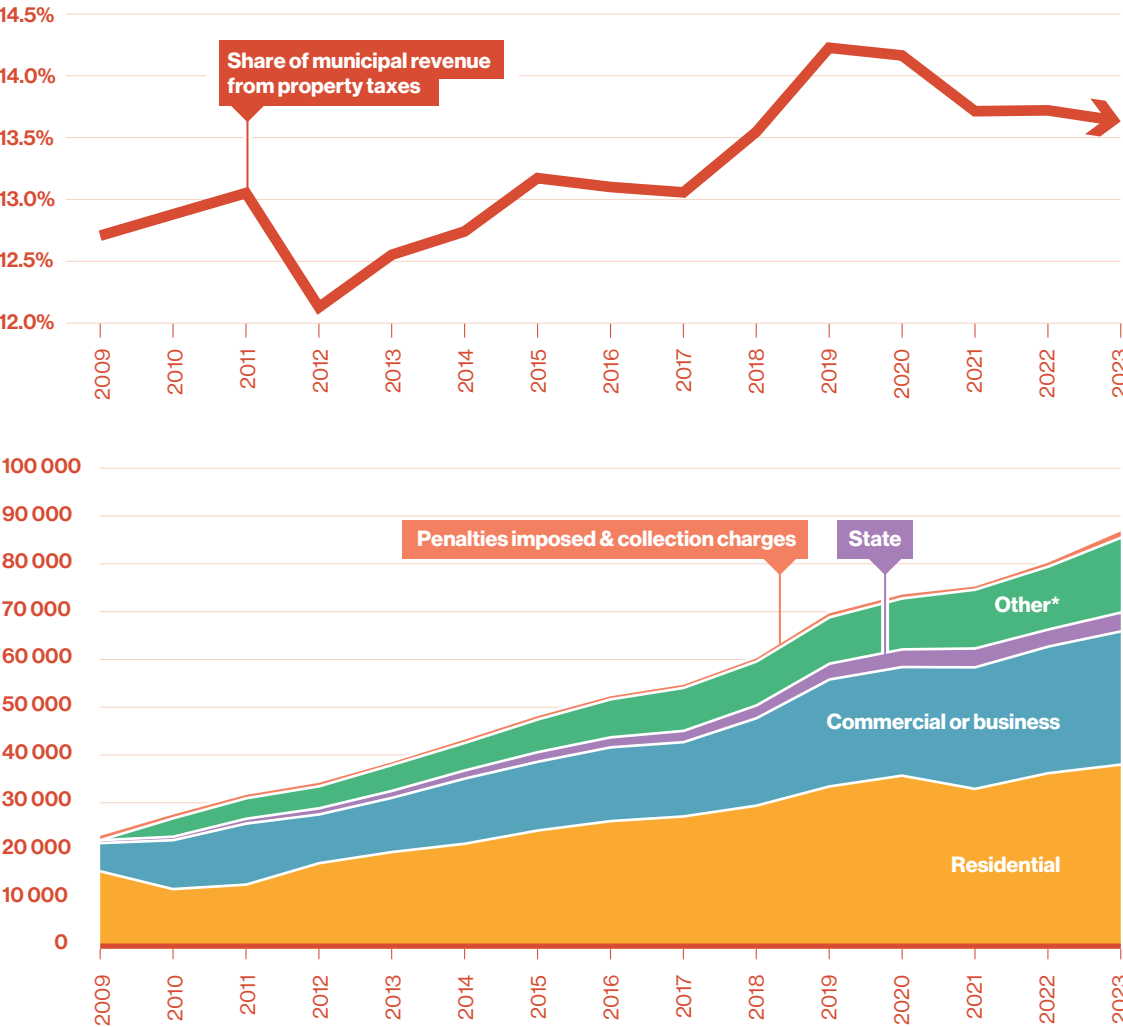
In 2023 property taxes contributed 13.6% to total municipal revenue. Figure 19 shows that the majority of property taxes are from residential properties, with commercial properties as the second largest source.

Table 23 shows that South Africa collects more in property taxes than most African countries, at 4.6% of total tax revenue in 2022.

However, South Africa collect less than Brazil, where property taxes make up 4.9% of total tax revenue and 1.6% of GDP, and far less than the OECD average of 8% of total tax revenue.

Below: Figure 18: Share of municipal revenue from property taxes.¹⁰⁹

Bottom: Figure 19: Municipal taxes on property by type.¹¹⁰
*Other includes agricultural & municipal.



	Taxes on property	
Country	% of total tax revenue	% of GDP
Africa average	2.60	0.267
Botswana	0.28	0.039
Brazil	4.85	1.614
Egypt	0.59	0.083
Kenya	0.04	0.007
Mexico	2.13	0.357
Mozambique	1.19	0.259
Namibia	0.59	0.117
Nigeria	0.79	0.062
OECD average	8.05	1.782
South Africa	4.57	1.236
Uganda	1.45	0.182
Zambia	0.55	0.09

Left: Table 23: Taxes on property* by country, 2022. ¹¹¹

* The OECD defines taxes on property as “recurrent and non-recurrent taxes on the use, ownership or transfer of property. These include taxes on immovable property or net wealth, taxes on the change of ownership of property through inheritance or gift and taxes on financial and capital transactions... taxes on capital gains are excluded”. ¹¹²

TRANSFER DUTY

Transfer Duty is a tax levied on the transfer of ownership of a property. It’s a one-time tax paid by the buyer when purchasing. The rate is tiered, based on the purchase price of the property. Table 24 outlines the rates for the 2025 tax year. ¹¹³

SARS is responsible for the collection of transfer duties.

Over the last 30 years, transfer duty rates have been adjusted to decrease the effective rate for lower property values and increase the rate for higher property values, increasing the progressivity of the tax. This has mainly been accomplished by adding new brackets, with higher rates for high-value properties. Figure 20 illustrates the changes over the last 30 years.

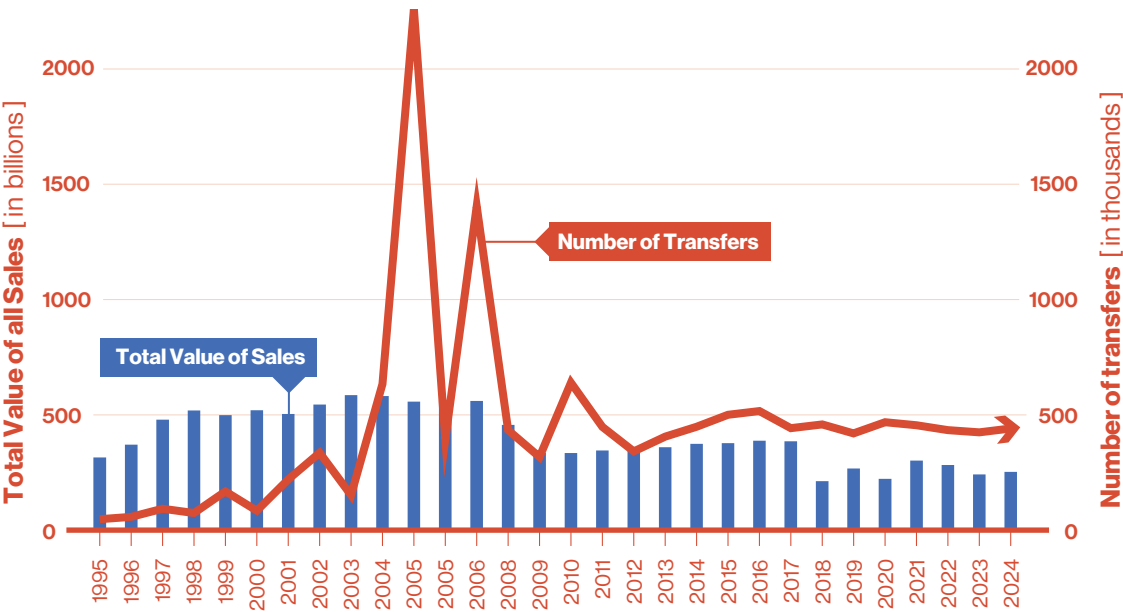
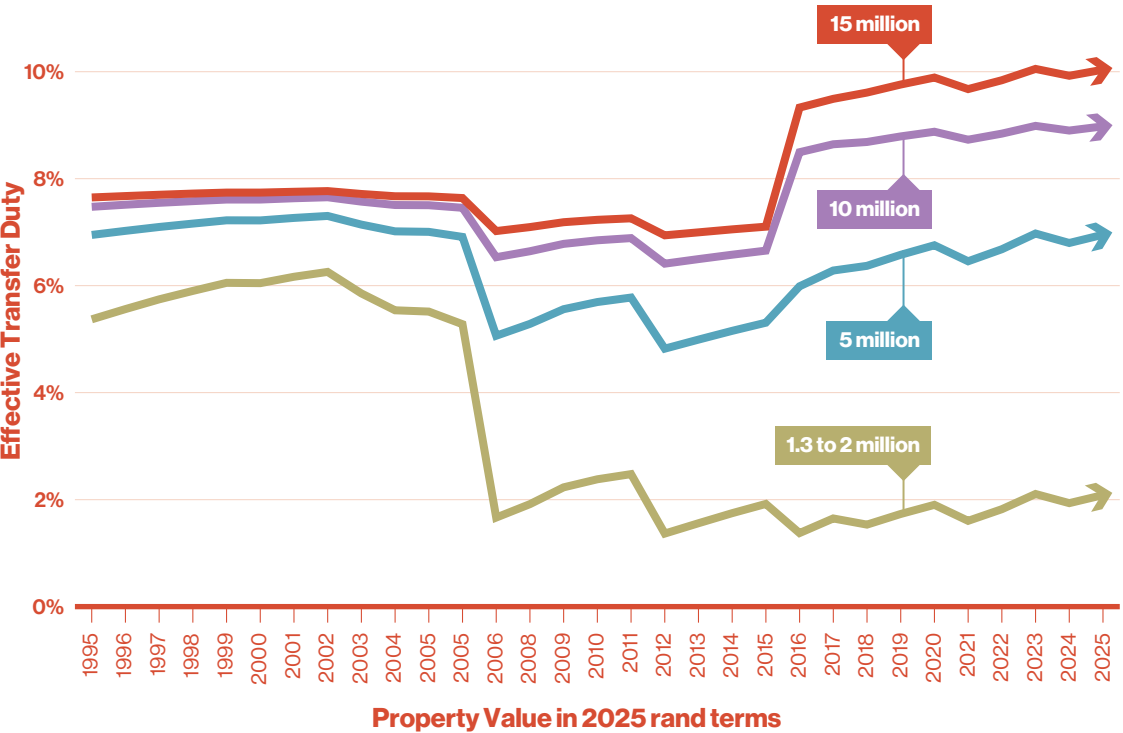
With these progressive changes, we might have expected that transfer duty as a percentage of tax revenue, and/or as a percentage of GDP, would have increased. However, this is not the trend we have seen in South Africa. The contribution of transfer duty to total tax revenue has, on the contrary, been decreasing over time. In 2023/24, revenue from

transfer duties was R9.5 billion, 0.52% of total tax revenue or 0.14% of GDP. Its contribution has been decreasing over time from a high of 2.04% in 2005/06 (see Figure 14 above).

The decrease in revenue raised from transfer duty seems to be driven by a decrease in property sales, especially high-value property sales. This can be seen in Figure 21 below.

The graph shows that the number of property transfers per annum has been decreasing over the last 25 years. In addition, the total value of all property sales increased drastically in 2005, 2007 and 2010. The number of transfers remains relatively stable over this period, indicating that the increase in total value of sales is due to an increase in high-value property sales. This may account for the high transfer duty collected in 2005, and the decrease in both the number of transfers, and a likely decrease in the number of high-value property sales, may have led the subsequent decrease in transfer duty collections. Further research that includes the number of sales broken down by property value would be useful to further understand the observed trends in transfer duty.

Value of the property (R)	Rate
1–1100 000	0%
1 100 001–1512 500	3% of the value above R1 100 000
1512 501–2 117 500	R12 375 + 6% of the value above R 1 512 500
2 117 501–2 722 500	R48 675 + 8% of the value above R 2 117 500
2 722 501–12 100 000	R97 075 +11% of the value above R2 722 500
12 100 001 and above	R1 128 600 + 13% of the value exceeding R12 100 000



Left, top: Table 24: Transfer Duty Rates for 2025 Tax Year.¹¹⁴

Left, middle: Figure 20: Effective Transfer Duty by property value.¹¹⁵

Left, bottom: Figure 21: Property sales in South Africa 1995 to 2024.¹¹⁶

The decline in transfer duty revenues may also be attributed to the increasing use of indirect transfers. This is a practice where a company's ownership is transferred at a tier above the property-owning entity, allowing the property to remain with the original company without a direct sale. This mechanism effectively bypasses the payment of transfer duty. Further research is needed to fully understand the drivers of decreasing revenue from transfer duty.

ESTATE DUTY

Estate duty is a tax levied on an individual's estate after their death. An estate encompasses all assets, including deemed assets such as life insurance policies and pension fund benefits, owned by a deceased person, regardless of their location. The taxable value of an estate is calculated by deducting allowable deductions (such as the value of assets inherited by a surviving spouse and retirement fund benefit allowances) and a tax-free threshold (currently R3.5 million) from the total value of the estate. Prior to 28 February 2007, the tax-free threshold was R2.5 million.¹¹⁷

Assets bequeathed to a surviving spouse, whether through a will or intestate succession, are fully exempt from estate duty in the first-dying spouse's estate. The legislative provision that allows deductions of the value of assets inherited by the surviving spouse acts as a deliberate incentive for inter-spousal bequests. Within this legislation, the definition of "spouse" extends beyond traditional legal marriages to include "permanent relationships".

This effectively postpones the estate duty liability until the death of the second-dying spouse. Furthermore, the unused portion of the R3.5 million abatement from the first-dying spouse can be transferred to the surviving spouse. This means that the surviving spouse's estate can potentially benefit from a combined exemption of up to R7 million (R3.5 million from their own abatement, plus the unused portion from the

deceased spouse's), a "double abatement".

The spousal exemption and the abatement rollover are not direct "avoidance" mechanisms in the sense of eliminating tax, but rather powerful deferral strategies. By deferring estate duty, the surviving spouse retains access to the full capital, which can continue to grow and generate income. This deferral provides an extended period during which the surviving spouse can implement their own estate planning strategies, such as making annual donations to a trust, thereby potentially reducing the ultimate estate duty burden on the family's wealth on the death of the second spouse.

The Katz Commission previously recommended maintaining the estate duty exemption for bequests to surviving spouses, despite acknowledging a lack of intellectual justification and potential constitutional issues. This stance was explicitly based on "pragmatic grounds."¹¹⁸

The Davis Tax Committee (DTC) strongly challenges this, asserting that "pragmatic grounds" are an insufficient basis for such a significant tax exemption.¹¹⁹ They argue that the current definition of "spouse" is inadequate for modern South African family structures. Moreover, bequests are increasingly used to support the parents and extended families of deceased individuals, not solely their spouses and children.

The DTC also points out that including "permanent relationships" in the "spouse" definition invites widespread manipulation, misinterpretation, and abuse, potentially leading to bequests motivated purely by estate duty savings. This situation is compounded by the risk of inconsistent interpretation and application of the Commissioner's discretionary powers.

A key concern is that the existing "double abatement" for couples results in a disproportionately lower effective estate duty rate for them. Consequently, the DTC advises either the complete withdrawal of inter-spouse exemptions and roll-overs or their subjection to a defined limit. The AIDC supports the DTC's recommendation to withdraw or limit the inter-spouse exemption to estate duty.

Table 25 summarises estate duty tax rates over time.

Effective Date	Rate (%)
1988-1996	15
1997-2001	25
2002-2018	20
2019-2025 under R30 million	20
2019-2025 over R30 million	25

Above: Table 25: Estate duty rates. ¹²⁰

In 1997, in a progressive development, estate duty was raised from 15% to 25%; however, in 2002, this gain was diminished with a decrease in estate duties to 20%. In 2019, a second bracket was introduced for estates valued over R30 million at a rate of 25%.

Of the taxes on property and wealth, estate duty raises the least revenue except for Donations Tax. In 2023/24, estate duty contributed R3.5 billion, or 0.19% of total tax revenue, with little change since 2004, as illustrated in Figure 14 above. Estate Duty in South Africa raises revenue worth 0.05% of GDP, compared with the OECD average of 0.2% (see Appendix D, Table 39).

The Davis Tax Committee noted that estate duty is significantly underperforming in terms of revenue collections in South Africa.¹²¹

Available data on comparable countries did not report estate duty separately from donations tax, and is only available for a few countries (see Table 26).

Country	Estate, inheritance and gift taxes	
	% of Tax Revenue	% of GDP
Brazil	0.39	0.13
OECD average	0.67	0.15
South Africa	0.23	0.06

Above: Table 26: Estate, inheritance and gift taxes by country, 2022. ¹²²

Compared to Brazil and the OECD average, South Africa fares poorly. Brazil raises 0.39% of tax revenue from estate and donation tax together, and the OECD average is 0.67% ,while in South Africa, these two taxes together raise a mere 0.23% of tax revenue or 0.06% of GDP.

Estate duty’s vital role in a just South Africa

Estate duty is extremely important to promote equality and prevent the increasing concentration of wealth within a small minority. Inherited wealth largely provides unearned privilege. Fortunes passed down through generations perpetuate existing inequalities, giving some individuals a significant and unfair advantage over others, simply due to their birth. A significant portion of wealth in South Africa remains concentrated in the hands of a minority who benefited from past injustices. It is, therefore, morally very questionable to have extreme wealth accumulation in a society such as South Africa with persistent poverty and inequality.

EXTRA INFO

Estate duties can be seen as a mild corrective to this and can play a role in slowly redressing these historical imbalances. They are seen as a mechanism to partially counteract this inherited advantage, allowing for a more level playing field, where opportunities are less determined by family wealth.

In a society that provides sufficiently for citizens’ basic needs of education, healthcare and housing, family inheritance is not needed for individuals to survive and thrive. While South Africa is far from sufficiently providing for these basic needs, it can be argued that funding from estate duty can play a role in building such a society, as well as increasing the number of citizens who are invested in building such a society, rather than relying on inherited wealth to access private services.

The tax-free threshold of R3.5 million is more than enough for a family to provide for themselves in the case of a lost breadwinner. It can therefore be argued that estate duty in South Africa should be higher, especially for high estate values.

Estate duty currently only has two thresholds: a rate of 0% applied under R3.5 million, 20% applied for values between R3.5 million and R30 million and 25% for values over R30 million. **AIDC recommends increasing the number of brackets, and applying a higher rate to large amounts of inherited wealth.** The Davis Tax Committee recommended measures to increase the performance of estate duty. The committee holds the view that estate duty, as an established wealth tax, should be enhanced. Such a change in policy should be combined with policies that close loopholes used by high-wealth individuals to avoid estate duty. To this effect, the Davis Tax Committee suggested that enforcement of the existing Estate Duty Act could be more effectively improved by deploying and training expert SARS estate duty assessors.

The potential implementation of a Capital Transfer Tax (CTT) in South Africa warrants further research. CTT represents a more sophisticated form of inheritance tax than the current estate duty, as it aims to tax assets periodically rather than solely at the time of death. A key objective of CTT would be to reclaim estate duty revenues lost when assets are transferred into trusts. The Katz Commission proposed a CTT to address

complex tax avoidance issues. While National Treasury and SARS have investigated a CTT, these proposals haven't been legislated, and the potential tax revenues remain unknown.¹²³

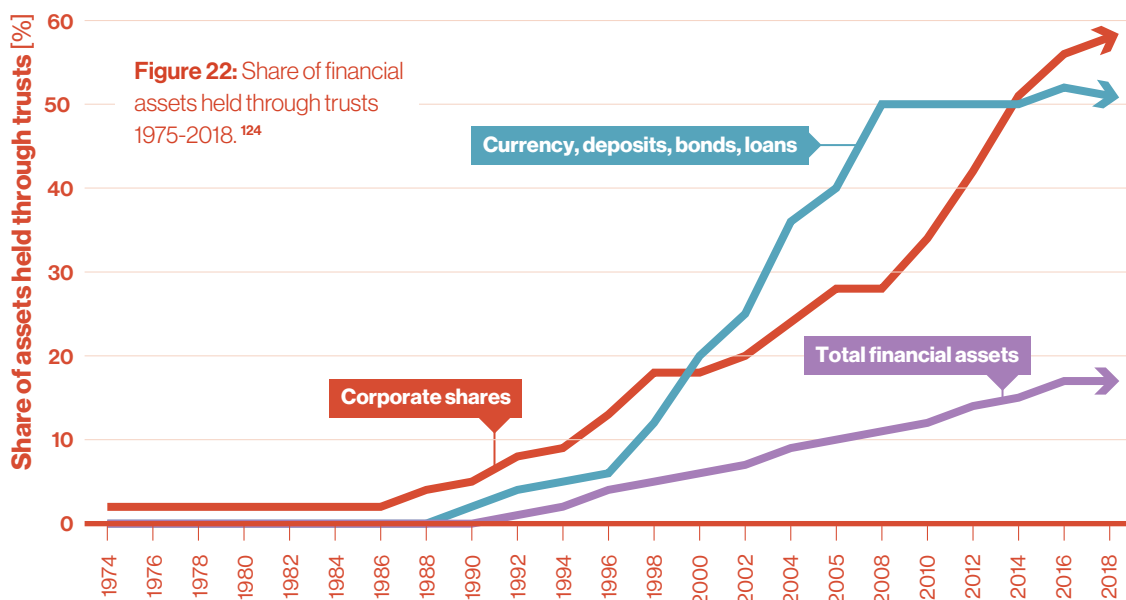
TRUSTS IN SOUTH AFRICA

One method used by wealthy individuals to avoid estate duty – and other taxes – is trusts. Any discussion on estate duty needs to include trusts.

Figure 22 shows the share of financial assets held through trusts in South Africa.

In 2018, close to 60% of corporate shares and over 50% of assets in the form of currency, deposits, bonds or loans were held in trusts. The rapid growth, as well as the large share of financial assets, held in trusts is cause for concern and scrutiny. This section will examine why so many South Africans choose to hold their financial assets in trusts and what it means for fair and just taxation.

Since South Africa does not have a net wealth tax, the assets held by trusts are not taxed, making it difficult to determine their total value. This contrasts with the taxation of income earned by trusts. **A potential solution is to start the implementation of a net wealth tax or a land tax with trusts.** This would give SARS valuable information about the assets they hold.



While registered trusts may be used for tax avoidance, the bigger issue lies with the high percentage of trusts that are completely unregistered with SARS. **A shocking 60% to 65% of trusts registered with the Master of the High Court have yet to register with SARS for tax purposes, meaning these trusts pay no tax on their income.**¹²⁵

60% to 65% of trusts are not registered with SARS and pay no tax!

South Africa has a number of different types of trusts. Understanding the different types is important for understanding how trusts are used to avoid estate duty.

INTER VIVOS TRUSTS (LIVING TRUSTS):

Inter Vivos trusts are created during the founder's lifetime through an agreement (contract) known as a trust deed. They become operational immediately upon establishment and are used for managing assets during the founder's lifetime. Inter Vivos trusts allow the founder to control the assets during their lifetime while planning for future distribution. Inter Vivos trusts are commonly used for aggressive tax planning. Crucially, assets transferred into an Inter Vivos trust are generally excluded from the founder's personal estate when calculating estate duty upon their death. This is a primary mechanism for estate duty avoidance.

TESTAMENTARY TRUSTS (WILL TRUSTS):

These trusts are established upon the founder's death, through their Last Will and Testament. Testamentary trusts are typically used to manage and protect assets for beneficiaries who may be minors, financially inexperienced, or have disabilities, ensuring their financial well-being after the founder's passing. Assets intended for a testamentary trust are still part of the deceased's estate at the time of death and are therefore subject to estate duties before being transferred into the trust. They do not reduce the estate duty

payable by the deceased's estate but provide a structured way to manage inheritances post-death.

The fundamental distinction between Inter Vivos and testamentary trusts lies in the timing of their creation and their primary estate duty implications. Inter Vivos trusts are tools designed for pre-death estate duty avoidance, by removing assets from the personal estate of the founders during their lifetime. Testamentary trusts, on the other hand, are reactive, coming into effect post-death to manage inheritances for specific beneficiaries, and therefore do not directly reduce the dutiable estate.

DISCRETIONARY TRUSTS:

In a discretionary trust, the appointed trustees have significant discretion over how much and when beneficiaries benefit from the trust's income and capital. As the assets held within the trust do not legally belong to any individual beneficiary, they cannot be accessed by personal creditors, or during divorce settlements. Assets held in a discretionary trust are generally not considered part of the founder's or beneficiaries' personal estates, thereby facilitating the avoidance of estate duty.

VESTED (OR BEWIND) TRUSTS:

Beneficiaries in a vested trust have a defined, immediate, and fixed right to the income or assets specified in the trust deed. While the assets are held by the trust, the existence of a vested right in a beneficiary could, depending on the specific wording of the trust deed, mean that the value of that vested right might be included in the beneficiary's estate for estate duty purposes, if they predecease the distribution. However, generally, assets held within a trust are not part of the founder's personal estate.

Discretionary trusts present a problem for fair payment of estate duty as individuals may have the benefit of assets while alive, but, because the trust owns the assets and they do not have a vested right, their death will not lead to estate duty being paid on the asset. Through this mechanism, assets can be passed on through generations without estate duty being paid. Regulations to deal with its impact on estate duty compliance should be introduced.

SPECIAL TRUSTS:

South African tax law recognizes “Special Trusts” (Type A and Type B) which receive specific, more favourable tax treatment. Type A trusts are for the benefit of persons with disabilities, while Type B trusts are testamentary trusts created for minor relatives. These trusts are taxed on a sliding scale, similar to individual taxpayers, rather than the flat 45% trust rate, and benefit from the annual CGT exclusion.

ANTI-AVOIDANCE LEGISLATION AND TRUSTS:

■ SECTION 7C

The South African tax authorities have actively introduced and refined anti-avoidance legislation to curb perceived abuses of trusts for tax purposes, particularly concerning estate duty.

Section 7C was introduced into the Income Tax Act 58 of 1962, effective from 1 March 2017. It is explicitly an anti-avoidance provision. Its primary objective was to prevent taxpayers from shifting wealth assets to family trusts on loan account, especially through low or interest-free loans. Prior to Section 7C, this was a common strategy to “peg” the value of the asset in the taxpayer’s hands by replacing it with a loan account, while the asset’s growth occurred tax-free within the trust, thereby avoiding donations tax, CGT and estate duty. Section 7C now treats the “missing” interest (the difference between the official interest rate and what’s actually charged) as an annual “deemed donation” from the lender to the trust, which is then subject to donations tax.

Crucially, Section 7C specifically states that its deemed donation rules do not apply if the trust is a vested trust for the purposes of all forms of income as well as assets. This means that if the beneficiaries of a trust have a fixed, immediate right to all the income (receipts and accruals) and the capital (assets) of the trust, then a loan made to that trust (even if interest-free) will not trigger the annual donations tax under Section 7C.

This exemption indicates that SARS views loans to vested trusts differently from loans to discretionary trusts (where trustees have full control over distributions). In a vested trust, because the beneficiaries’ rights are clearly defined and fixed, the arrangement is less likely to be seen as a way to hide wealth or

strip growth from the founder’s estate, which is what Section 7C aims to prevent. Therefore, the specific anti-avoidance mechanism of Section 7C is not applied to these particular loan arrangements.

While vested trusts are less likely to be seen as a way to hide wealth or strip growth from the founder’s estate, this does not seem sufficient reason to not properly tax a donation to the trust in the form of a low/no interest loan. **AIDC recommends that Section 7C’s deemed donation rules apply to vested trusts.**

■ TRANSPARENCY

Recent significant amendments to the Trust Property Control Act, effective from 2025, have introduced stricter requirements for transparency. Trustees are now mandated to establish and maintain up-to-date beneficial ownership registers and lodge them electronically with the Master of the High Court. This measure aligns South Africa with international standards set by the Financial Action Task Force (FATF) to combat money laundering and the financing of terrorism. These recent amendments concerning beneficial ownership represent a significant shift towards increased regulatory oversight and transparency. Historically, trusts have been perceived as vehicles with low levels of transparency. However, these new requirements indicate that the era of trusts as opaque structures is diminishing. This is a direct response to international anti-money laundering and anti-terrorism financing standards, and domestic concerns about financial crimes.

A recent amendment to Section 7C, effective January 1, 2025, specifically ensures that, even if a loan to a foreign trust is already subject to general “transfer pricing” rules (which aim to ensure market-related interest rates for international transactions), it can also fall under Section 7C. This means that for these foreign trust loans, tax implications from both the general transfer pricing rules and Section 7C might be in place, potentially leading to a higher tax rate than if only one rule applied.

■ GENERAL ANTI-AVOIDANCE RULE

Beyond specific provisions like Section 7C, South Africa's tax legislation includes a General Anti-Avoidance Rule (GAAR) to curb impermissible tax avoidance arrangements. The GAAR provisions, contained in Sections 80A to 80L of the Income Tax Act, empower SARS to impose a tax liability where a taxpayer has been party to an impermissible avoidance arrangement.

An arrangement is considered an "impermissible avoidance arrangement" if its sole or main purpose was to obtain a tax benefit, and it exhibits certain "tainted elements" such as a lack of commercial substance. An arrangement is considered to lack commercial substance if it results in a significant tax benefit for a party but does not have a significant effect upon either the business risks or the net cash flow of that party.

The GAAR is designed to address arrangements that, while perhaps technically compliant with specific tax provisions, are contrary to the underlying purpose or spirit of the tax law. SARS has the power to disregard parts of such arrangements or determine tax liability as if the arrangement had not been entered into. This broad power means that, even if a trust structure appears to comply with specific rules, it could still be challenged if its overarching purpose is deemed to be impermissible tax avoidance. The Davis Tax Committee (DTC) has previously opined that existing GAAR provisions and judicial precedent do not always act as an effective deterrent against the wide range of estate duty-saving mechanisms, suggesting ongoing challenges in enforcement.

■ ATTRIBUTION PROVISIONS

The "attribution principle," primarily found in Sections 7 and 25B of South Africa's Income Tax Act, refers to a mechanism that allows income or capital gains generated within a trust to be "attributed" or "vested" in the trust's beneficiaries. This means that instead of the trust itself paying tax on that income or gain at its higher, flat rate (currently 45% for income and 36% effective for capital gains), the income or gain "flows through" to the beneficiaries and is then taxed in their individual hands at their respective marginal tax rates.

Originally, the rules in Section 7 were intended as an anti-avoidance measure to prevent individuals from using trusts purely to split income and avoid tax. However, over time, these provisions, along with Section 25B, evolved to allow trustees to effectively "pass on" the tax liability to beneficiaries. If a beneficiary is in a lower income tax bracket than the trust's flat rate, this "income splitting" can lead to a lower overall tax burden for the family unit. For example, if a trust earns rental income, the trustees can decide to vest that income in a beneficiary who has little or no other income, resulting in that income being taxed at a much lower rate than if the trust had retained it.

The Davis Tax Committee critically viewed this principle, especially for South African resident trusts. They argued that what was originally an anti-avoidance measure had effectively become a "concession to high-net-worth individuals," allowing them to reduce their tax liability by having trust income taxed at lower beneficiary rates. Consequently, the DTC recommended that these "deeming provisions" should be repealed for South African resident trusts, ensuring that they are taxed as separate entities at their flat rate. However, they recommended retaining these provisions for non-resident trust arrangements. Despite this recommendation, the attribution provisions have not been repealed for South African resident trusts. However, from 1 March 2024, the deeming rule no longer applies to non-residents. If a non-resident beneficiary has a vested right to such income, the income will be taxed in the hands of the trust.

DO WE NEED TRUSTS?

Special trusts that cater for persons with disabilities, or minor relatives, have clear societal benefit, as they allow relatives to financially care for persons with disabilities or minors after the caretaker's death. Testamentary Trusts (Will Trusts) play a similar role by allowing a breadwinner to ensure financial security for dependents upon their death. The beneficial purpose of Inter Vivos trusts, also known as Living Trusts, is less clear.

Living Trusts are established during a person's lifetime, and many view their primary function as a tax planning vehicle. Living trusts mitigate estate duty by removing assets from the founder's personal estate, thereby excluding future growth from estate duty calculations upon death. These trusts allow founders to shield their assets from creditors, business risks, and divorce claims. Furthermore, they facilitate the effective transfer of wealth without transfer duties. This occurs because the beneficiaries may, for all effective purposes, have access to the wealth without it formally being transferred into their personal name. Additionally, *Inter Vivos* trusts provide a high degree of secrecy, as their details remain confidential, unlike wills. Finally, through the attribution provision, income splitting can allow individuals to aggressively plan their incomes in order to minimise income taxes.

All the benefits of living trusts primarily serve those who possess substantial wealth to begin with. This creates a system in which the wealthy can insulate their fortunes, even in times of economic hardship or personal liability, while the majority of citizens lack such sophisticated mechanisms to safeguard

their limited assets. This legal insulation can be seen as reinforcing a "two-tiered" system of financial security.

The objective of wealth management and preservation for future generations through trusts, while seemingly benign, directly contributes to the perpetuation of inherited advantage. The Davis Tax Committee's view is that:

"taxpayers who pursue the postponement of estate duty through the use of trusts will remain at liberty to do so. But upon sale of the assets of a trust a higher rate of tax will be imposed, thus compensating for the estate duty loss."¹²⁶

However, where assets remain within the trust but beneficial ownership changes from one person to another, no estate duty or transfer duty is paid. This leads to an unfair system in which those without the resources to set up trusts pay estate duty and transfer duty when assets change hands within a family, while the elite insulate themselves from these legal obligations. In addition, in a country with deep historical inequalities, ensuring that wealth remains within specific families across generations, rather than being subject to more significant redistribution through taxation, solidifies existing disparities and limits opportunities for social mobility for those born outside these privileged structures.

The secrecy afforded by trusts, where details of assets and beneficiaries remain confidential, can also be viewed critically. This lack of transparency can hinder tax authorities' ability to effectively track wealth and ensure fair taxation, contributing to the perception that trusts are used to obscure financial dealings and avoid legitimate tax

Wealthy individuals use trusts to escape paying tax. This leads to an unfair system whereby the elite insulate themselves from legal obligations. In a country with deep historical inequalities, enabling wealth to remain within specific families across generations, rather than being subject to more significant redistribution through taxation, solidifies existing disparities and limits opportunities for social mobility for those born outside these privileged structures.

obligations. Recent amendments to the Trust Property Control Act, mandating beneficial ownership registers, are a direct response to this opacity, driven by international efforts to combat money laundering and financial terrorism, acknowledging the potential for misuse.

Finally, the concept of tax efficiency through income splitting, where trust income can be distributed to beneficiaries in lower tax brackets to reduce the overall tax burden, was explicitly identified by the Davis Tax Committee as a “concession to high-net-worth individuals” that should be repealed for South African resident trusts. This highlights how legal provisions, even if not explicitly designed for avoidance, can be strategically leveraged by the wealthy to minimize their tax contributions, further widening the gap between the rich and the poor.

The Davis Tax Committee observed that many wealthy individuals escape estate duty through trusts and other means. They recommended addressing deficiencies through fundamental amendments, including reconsidering the “attribution principle”. Further, **AIDC believes that the need for living trusts needs to be critically questioned, with the possibility of phasing such trusts out completely.**

Such phasing out needs to be done in conjunction with careful examination of how wealthy individuals may use the establishment of companies to avoid estate duty and transfer duty instead of trusts.

DONATIONS TAX

The donation of any property by a person (individual, company, or trust) to another person requires the donor to pay a donation tax. Donations Tax is the smallest of the taxes on wealth and property, raising a mere R801 million, 0.04% of total tax revenue, or 0.01% of GDP, in 2023/24. In contrast, Brazil raises 0.39% of tax revenue from estate and donation tax together, the OECD average is 0.67% while in South Africa these two taxes together raise a mere 0.23% of tax revenue (see Table 26 above).

The tax rates applicable to donations are identical to those applied to estate duty (20% for donations under R30 million and 25% for donations above R30 million). As with estate duty, **AIDC recommends increasing**

the number of brackets and applying a higher rate to large donations. The first R100 000 of property donated in each year of assessment by a natural person is exempt from donations tax. In the case of a donor who is not a natural person (for example, companies and trusts), the exemption is limited to casual gifts not exceeding R10 000 per year of assessment. Taxpayers can deduct donations made to qualifying Public Benefit Organisations (PBOs) up to a maximum of 10% of their taxable income (previously 5%).¹²⁷

There are certain exemptions which render Donations Tax inapplicable. Spouses may make donations to one another, for any amount, and these will be exempt. Donations between companies forming part of the same group of companies are also exempt. Any bona fide contribution made by a donor towards the maintenance of any person is also exempt from donation tax, limited to what the Commissioner considers reasonable. The recommendation of the Davis Tax Commission was to “refine the ‘reasonable maintenance’ exemption” so that it should be subject to specific categories of expenditure (e.g., food, clothing, medical, education, cost-of-living, small motor vehicle) and explicitly exclude the donation of assets like fixed property and financial instruments, aiming to deter substantial abuse of this exemption. **AIDC supports the recommendation to refine the reasonable maintenance exemption and to exclude the donation of assets.**

SECURITIES TRANSFER TAX

A Financial Transaction Tax (FTT) is a levy applied to each purchase or sale of financial assets, such as stocks, bonds, or derivatives. This tax is calculated as a percentage of the asset’s value at the time of the transaction. Securities Transfer Tax (STT) is a specific form of FTT. South Africa uses an STT of 0.25%, levied on the transfer of listed or unlisted securities, which encompass shares in companies and member interests in close corporations in South Africa.¹²⁸

FTTs offer a potential mechanism to mitigate the risks associated with excessive financial speculation, a key contributor to the 2008 global financial crisis. Furthermore, FTTs can be instrumental in managing the impact of volatile foreign investment flows on developing economies¹²⁹.

Brazil serves as an illustrative case. Significant inflows of foreign capital have led to currency appreciation, posing challenges for the country's economic stability. To address this, the Brazilian government has implemented a form of FTT — specifically, a tax on securities purchases by non-resident investors.¹³⁰

Some argue that FTTs deter Foreign Direct Investment (FDI). Contrary to this concern, FTTs could actually stimulate long-term, productive FDI. By increasing the costs associated with short-term investment activities, such as high-frequency trading and speculative currency movements, FTTs can discourage excessive short-term financial activity. This, in turn, can make long-term investments more attractive, thereby encouraging sustainable economic growth in developing countries.¹³¹

FTTs can discourage excessive short-term financial speculation.

Globally, the design of FTTs (which include STTs) differs greatly. Table 27 summarises FTT rates globally.

Below: Table 27: Financial Transaction Tax rates.¹³²

Territory	Tax Rate (%)	Applies to
Argentina	0.6	stock, bonds & futures
Australia	0.3 on stocks, 0.6 on corporate bonds	stocks & bonds
Belgium	0.35	stocks & bonds
Brazil	1.5	stocks & bonds
China	0.2	stocks & bonds
Denmark	0.5	stocks & bonds
Egypt	0.175	both directions
France	0.3	stocks
Germany	0.2	stocks
Greece	0.6	stocks & bonds
Guatemala	3	stocks & bonds
India	0.125	stocks & bonds
Italy	0.1	0.02% on high frequency trades
Japan	0.08-0.3	stocks & bonds
Kenya	1.0	
Malaysia	0.3	stocks, bonds & futures
Pakistan	0.01	stocks & bonds
Poland	1.0	stocks & derivatives
Senegal	1.0	For Foreigners only
South Africa	0.25	stocks
South Korea	0.15 - 0.3	stocks & bonds
Switzerland	0.15 - 0.3	stocks & bonds
United Kingdom	0.5	stocks

South Africa has a more limited coverage than other countries, with only the sale of stocks covered by the tax.

A country's stock market becoming overvalued can start to have negative impacts on the economy, such as making the value of the currency more unstable and making it harder for small or productive companies to get capital. The Buffet Indicator measures the size of a country's stock markets compared to the size of the economy. If the number is more than 100%, this means that the stock market is overvalued, because it is worth more than the whole economy. The European Union is 54%, and the United States is 155%. South Africa's indicator is a staggering 320%.

In 2023/24, STT contributed a mere R5.5 billion, 0.3% of total tax revenue or 0.08% of GDP, in South Africa. In comparison, STT contributed 2.43% of total tax revenue in Brazil, 0.82% in Mexico, 1.19% in Mozambique and 1.45% in Uganda, as illustrated in Table 28.

Given that the STT contributes a relatively small portion to government revenue, in the context of the oversized financial sector in South Africa compared to other countries, the figures suggest that the STT is underperforming compared to its potential. Notably, the STT excludes bonds and does not apply to derivatives or other forms of financial transactions. This limited scope of the tax may contribute to its relatively low revenue generation compared to the OECD average and comparable economies. **AIDC recommends expanding the STT to a more comprehensive financial transaction tax applied to the sale of stocks, bonds and all derivatives. In addition, to incentivise long-term investment and decrease harmful high-frequency trades, those trades should face an additional tax on top of the STT.**

Below: Table 28: Taxes on financial and capital transactions*, 2022.¹³³
* The OECD classifies taxes on financial and capital transactions as: "taxes on the issue, transfer, purchase and sale of non-financial and financial assets (including foreign exchange or securities), taxes on cheques and other forms of payment, and taxes levied on specific legal transactions such as validation of contracts and the sale of immovable property".¹³⁴

Country	% of total tax revenue	% of GDP
Botswana	0.28	0.039
Brazil	2.43	0.809
Egypt	0.17	0.024
Mexico	0.82	0.137
Mozambique	1.19	0.259
Namibia	0.59	0.116
Nigeria	0.79	0.062
OECD average	1.27	0.457
South Africa	0.34	0.092
Uganda	1.45	0.182
Zambia	0.55	0.09
Average	1.82	0.206

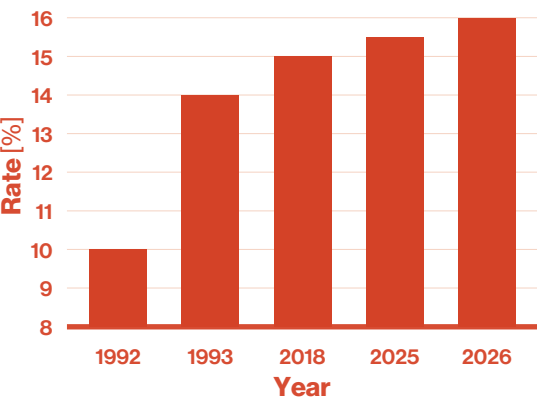
VAT

South Africa has seen growing VAT rates over the last 30 years, as summarised in Figure 23.

In 2018, the VAT rate was increased by one percentage point (from 14% to 15%), after being raised in April 1993 from 10% to 14%. In February 2025, the government attempted to increase the VAT rate from 15% to 17%, but due to widespread public outcry, it scrapped the proposal.

South Africa's VAT rate is similar to that of comparable countries (see Table 29). However, South Africa's VAT revenue as a percentage of GDP is high compared to comparable countries (see Table 30).

Below: Figure 23: VAT rate increases over time.



Below: Table 29: VAT Rates of Comparable Countries. ¹³⁵

Territory	Standard VAT rate (%)
Botswana	14
Brazil	17
Egypt	14
Kenya	16
Malawi	16.5
Mexico	16
Mozambique	16
Nigeria	7.5
South Africa	15.5
Uganda	18

Below: Table 30: VAT revenue as % of GDP. ¹³⁶

Country	% GDP
Africa	4.5
Botswana	4.1
Brazil	7.0
Egypt	3.3
Kenya	4.1
Lesotho	9.0
Malawi	3.7
Mexico	4.2
Mozambique	7.2
Namibia	6.7
Nigeria	1.2
OECD average	7.0
South Africa	6.2
Uganda	3.8
Zambia	4.2

In the context of South Africa's world-beating inequality and the regressive nature of VAT, and to minimise the role the tax system plays in perpetuating inequality, South Africa should aim to have a lower VAT rate as well as lower VAT revenue as a percentage of total tax revenues and GDP.

Given the regressive nature of VAT, and its outsized impact on the most vulnerable, South Africa has many zero-rated items to dampen the effect of VAT on poor households. The zero-rated VAT list includes a range of essential goods and services: 19 basic food staples such as brown bread, eggs, cooking oil, grains, rice, milk, fresh produce, dried legumes, canned vegetables, edible offal of sheep, poultry and other animals, dairy liquid blends and canned fish; illuminating paraffin; fuel levy-related goods like petrol and diesel; international transport services; agricultural inputs; business sales of going concerns; and specific government grants.

Goods and services exempt from VAT in South Africa include residential rentals, educational services (from preschools to higher education), public transportation, non-fee-based financial services, and medical aid and public healthcare provisions. A key difference from zero-rated items is that suppliers of VAT-exempt goods cannot reclaim

input VAT. Consequently, any VAT incurred on their operational costs may be passed on to the consumer, potentially increasing the final price.

The rationale behind zero-rating essential goods is to provide tax relief to low-income households, who are assumed to consume these items at a higher proportion of their income. However, zero-rating is not the only way to soften the impact of VAT on poor households. Other measures include increases to social grants, improving access to affordable transport and improving social services.

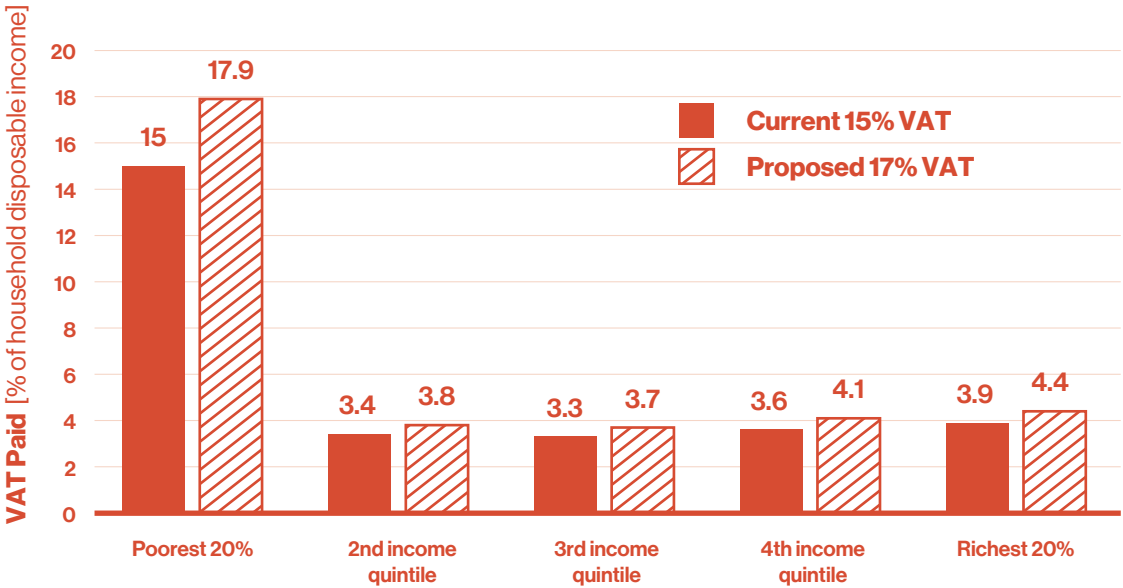
It's uncertain whether the overall effect of VAT and zero-rating in South Africa is regressive. Results are mixed, with some studies finding VAT, along with zero-rating in South Africa, mildly regressive¹³⁷, while other studies find it mildly progressive¹³⁸. Research¹³⁹ on OECD countries revealed that the method used to estimate the impact of VAT has a significant effect on the result. Studies that measure VAT burden as a proportion of current income largely find VAT to be regressive. While studies that measure VAT burden as a proportion of current expenditure find VAT to be proportional or slightly progressive.

Based on an in-depth examination of spending habits derived from Statistics South Africa's 2014/15 Living Conditions Survey,

Njozela¹⁴⁰ finds that the current selection of zero-rated items effectively aligns with the spending patterns of targeted demographics, while also addressing health and gender-related considerations.

However, some argue that, while zero-rating effectively alleviates poverty¹⁴¹, it is less successful in addressing overall inequality. This is because wealthier households, with greater purchasing power, ultimately derive a larger absolute benefit from zero-rated goods, even though the relative impact on their income is smaller.¹⁴² Consequently, while zero-rating offers some relief to the poor, its overall impact on reducing income disparities is limited, as the wealthy also gain substantially. Therefore, most of the benefit of zero-rated products actually accrues to the better-off, making this a very poorly targeted way of pursuing equity objectives. Proponents of this argue that a more targeted policy, such as directly spending forgone revenue from zero-rating on services desperately needed by the poor, would be more redistributive and achieve the goal of a more equal society more efficiently.

Below: Figure 24: Effective VAT rate on disposable income.¹⁴³



Further, the assertion that VAT's inherent regressivity is mitigated by the zero-rating of select essential foods, such as maize meal and fresh vegetables, obscures a fundamental structural inequality. While these exemptions offer marginal relief, they fail to address the systemic burden imposed on lower-income households. These households, constrained by necessity, expend a disproportionate share of their income on VAT-liable goods and services – electricity, transport, sanitation, and education – while higher-income cohorts enjoy the fiscal advantage of allocating resources to tax-exempt domains like private education, specialised healthcare, and sophisticated financial instruments. Figure 24 shows that the poorest 20% face the highest VAT burden by a large margin.

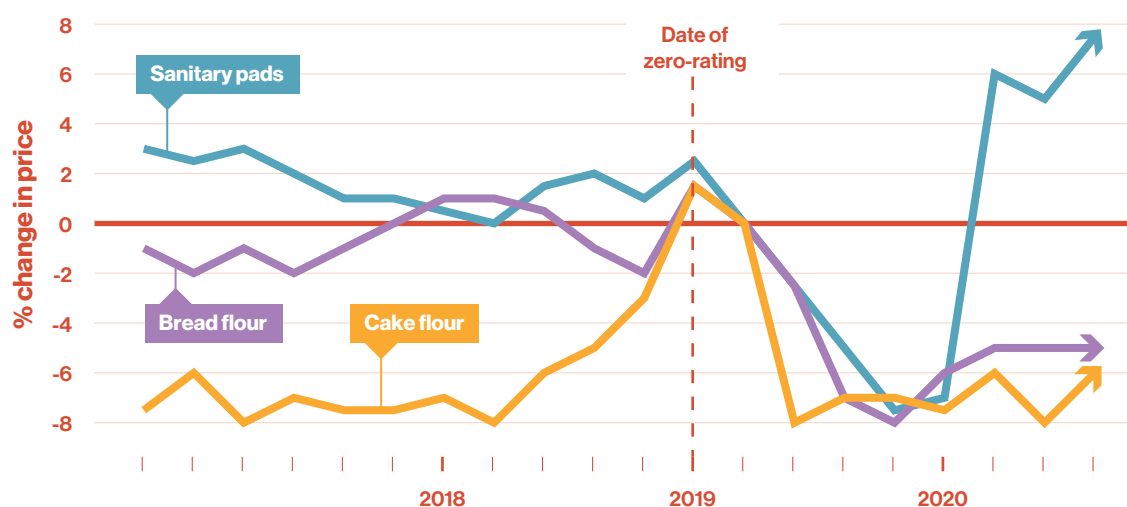
In addition, any increase in VAT has a disproportionately larger effect on the poorest 20% of households. Consequently, VAT, under the guise of broad application, functions as a mechanism that exacerbates existing economic disparities.

The poorest 20% face the highest VAT burden by a large margin.

In considering the benefit-to-cost ratio of zero-rating items, Njozela¹⁴⁴ compares the tax revenue forgone from the richest six deciles to the savings of the poorest four deciles. The author finds that, for only mealie meal, samp, dried beans, vegetable cooking fat, and paraffin of the currently zero-rated products, the total saving to the poorest outweighs the cost of revenue foregone from the richest. The author further explores products that could be added to the list of zero-rated items. She finds that, for bread flour, mopane worms, instant yeast, candles, coal, matches, and pharmacy dispensing fees in public institutions, the total savings to the poorest also outweigh the foregone revenue from the richest. In order to mitigate the effect of VAT **AIDC echoes the recommendation to zero-rate mopane worms, instant yeast, and fuel for household use, including candles, coal and matches.**

While VAT zero-rating may not be an effective policy for reducing overall inequality, it is effective in reducing the regressive effects of VAT. Further, while revenue lost to zero-rating could be more efficiently spent to decrease inequality, there is no guarantee how the government would choose to spend it. Given that poverty and hunger reach stunting levels in South Africa, where one in every five households experiences moderate to severe food insecurity,¹⁴⁵ the poverty-reducing role of zero-rating should not be underestimated. However, while zero-rating provides some relief, it should not be used as a justification to increase VAT and further increase the extent to which VAT exacerbates inequalities.

Below: Figure 25: Effect of zero-rating on price.¹⁴⁶



Much of the research on VAT assumes that the benefit of zero-rating is passed on to consumers. However, research by National Treasury found that the intended price reductions from zero-rating items were not fully passed through to customers and thereby realised by lower-income households. Figure 25 illustrates that prices generally fail to drop by the expected 15% (the full value of the removed VAT) after goods are zero-rated. This means that corporates are capturing some of the benefits of zero-rating products. For cake flour, the price one year after zero-rating was identical to the price one year before. For sanitary pads, the price was actually higher a year after zero-rating than it had been the year prior. This suggests that zero-rating is an imprecise tool to protect households from increases in VAT.¹⁴⁷

AIDC recommends an immediate halt to all VAT increases. VAT should be progressively decreased. While zero-rating provides some relief, it should not be used as a justification to increase VAT and further increase the extent to which VAT exacerbates inequalities.

South Africa's VAT revenue as a percentage of GDP is high compared to comparable countries. In the context of South Africa's world-beating inequality and the regressive nature of VAT, to minimise the role taxes play in perpetuating inequality, South Africa should aim to have a low VAT rate as well as low VAT revenue as a percentage of GDP.

The effect of VAT is not felt homogeneously. VAT may have an implicit bias, as people have different spending patterns and so will bear the burden of the tax in different proportions. VAT increase carries a particularly heavy burden for women, especially those in impoverished households with children. VAT disproportionately impacts women due to their central role in caregiving. Women, often operating on lower incomes, allocate a larger share of their earnings to essential household needs, including food, healthcare, and education. This financial strain is compounded by the fact that women in South Africa face higher rates of unemployment and lower wages compared to their male counterparts, further exacerbating their vulnerability to regressive taxes.

Further, women and the elderly are the most severely affected by VAT, as they are most severely affected by poverty. Casale¹⁴⁸ studies households in the lowest income quintile with children that are either female-headed, or where women are the breadwinners, or

where the majority of the adults are women. The author finds that these households bear a higher VAT burden on necessity items such as food, basic personal care items, children's clothing and fuel for household use. She suggests zero-rating children's clothing, given that this will have large gender and income distributional impacts, as it perfectly targets households with children, but will have a relatively small revenue implication. In order to mitigate the effect of VAT, **AIDC echoes the recommendation to zero-rate children's clothing.**

Implementing a tiered VAT system, with higher rates on luxury goods, offers a potential avenue for wealth redistribution, shielding lower-income individuals from excessive consumption taxes. The predominantly imported nature of luxury goods means that changes in their pricing will have a relatively small impact on the overall level of demand for domestically produced goods. Njozela¹⁴⁹ identifies an extensive list of items that could be considered for a luxury VAT rate. The criterion used is whether 70% or more of expenditure on the item comes from the richest 10% of South Africans. She estimates that a luxury VAT rate of 25% on these items would raise R9.6 billion in additional revenue.

However, a single VAT rate is considered to be most efficient administratively, and instead of a second VAT rate, an ad valorem duty (calculated as a percentage of price) on certain luxury goods and automobiles is considered good practice. South Africa follows this system with certain goods on which ad valorem duty is levied, each with its own applicable rate of duty. The two most commonly applied rates are 7% and 9%. Examples of such goods include (refer to Schedule 1 Part 2B for the full list of qualifying articles)¹⁵⁰:

- a. Air conditioning machines;
- b. TV sets and other electronic equipment;
- c. Motorcycles and motor vehicles;
- d. Firearms;
- e. Cellular telephones; and
- f. Perfumes and skin care products.

AIDC recommends an ad valorem duty of 9% be applied to the following goods and services: ammunition, printers, fax machines, boats/ships for personal use, aircraft, security services, security systems (including alarms and panic buttons), quad bikes, holiday tour packages, hotels, and bed and breakfasts (including Airbnb).

CONCLUSION AND RECOMMENDATIONS

CONCLUSIONS

Thirty years post-apartheid, the deep-seated inequalities that plague South Africa remain a formidable challenge. The current fiscal climate, coupled with the potential for regressive tax changes, underscores the urgent need for a comprehensive assessment of our tax policy. As this report has highlighted, a robust and equitable tax system is not merely a mechanism for revenue generation; it is a fundamental tool for fiscal redistribution. By effectively funding essential public services - from education and healthcare to policing and infrastructure - we can significantly improve the lives of the most vulnerable and foster a more just society.

The analysis demonstrates that there is considerable fiscal space to increase South Africa's tax-to-GDP ratio, particularly through progressive direct taxes. This approach offers a dual benefit: it allows the government to adequately fund crucial services and invest in long-term economic growth, while simultaneously mitigating wealth concentration and its associated power imbalances. A higher direct tax component in the overall tax mix is a proven strategy for reducing inequality, levelling the playing field for all South Africans.

KEY RECOMMENDATIONS FOR A PROGRESSIVE TAX SYSTEM

To achieve these objectives, this report puts forth a series of actionable recommendations aimed at enhancing the progressivity and fairness of the South African tax system, while maximising revenue collection and shifting the tax burden towards the rich. These include:

STRENGTHENING DIRECT TAXATION ON INCOME:

1. **Increase the tax rates of PIT brackets 3-6, each by 1 percentage point¹⁵¹.**
2. **Lower the minimum income threshold for the top band from R1.82 million to R1.27 million¹⁵².**
3. **Adjust brackets representing the middle class for inflation annually to prevent bracket creep, but not by more than inflation. Adjust higher brackets, representing the elite minority, by less than inflation to rectify the over-adjustment that has occurred over the past 30 years.**
4. **Abolish the medical aid credit rebate.**
5. **Change the retirement fund deduction to a credit at a conversion rate of 26%¹⁵³**
6. **Tax dividend income received by residents at the same rate as other income instead of at a flat rate.**
7. **Subject all forms of interest income to third party reporting.**

ESTABLISHING COMPREHENSIVE TAXES ON WEALTH:

1. **Institute an annually recurring tax on net wealth** (assets minus debts), including all forms of assets, and targeting only the top 1% of wealth owners. The tax should be based on marginal tax rates, applied only to wealth above the threshold.
2. **Reform property taxes to counter inter-municipal inequality.**
3. **Enhance estate duty and donations tax** by increasing the number of brackets and applying higher rates to large inherited wealth.
4. **Repeal the attribution provisions principle for trusts.¹⁵⁴**

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5. **Critically re-examine the necessity of living trusts**, with a view to potentially phasing them out
 6. **Refine the reasonable maintenance exemption to Donation Tax** and exclude the donation of assets¹⁵⁵.

REFORMING INDIRECT TAXATION AND FINANCIAL TRANSACTIONS:

1. **Expand the STT to a more comprehensive financial transaction tax** applied to the sale of stocks, bonds and all derivatives.
2. **In addition, impose a high-frequency tax on trades on top of the STT.**
3. **Immediately halt all VAT increases.**
4. **Zero-rate** children's clothing, mopane worms, instant yeast, and fuel for household use, including candles, coal and matches¹⁵⁶.
5. Add additional luxury goods to the list of goods for which ad valorem duty is applicable.

While some of these proposed reforms may present administrative challenges, past experience with the South African Revenue Service (SARS) has unequivocally demonstrated that investments in administrative capacity yield significant returns. The additional revenue generated by these reforms is expected to be substantial. These measures are aligned with South Africa's international commitments at the G20 in Brazil in 2024 and Seville in 2025, and should be urgently explored in order to address unacceptable levels of inequality.

Ultimately, reforming our tax system is not merely a fiscal exercise; it is a societal imperative. It demands comprehensive and transparent public participation, because it is fundamentally about establishing a more just and prosperous South Africa. By engaging with these progressive reforms, South Africans can take decisive steps towards rectifying historical disparities and fostering a future where shared prosperity is attainable for all.

The analysis demonstrates that there are many options available to increase South Africa's tax-to-GDP ratio, particularly through progressive direct taxes. This approach offers a dual benefit: it allows the government to adequately fund crucial services and invest in long-term economic growth, while simultaneously mitigating wealth concentration and its associated power imbalances.

APPENDIX A: COMPOSITION OF TAX REVENUE

Table 31: Composition of Tax Revenue, 1994-2024. ¹⁵⁹

	Direct				Total Direct Taxes	Indirect					Total Indirect Taxes	Total tax revenue
	Personal Income Tax (PIT) ¹	Company Income Tax (CIT) ¹	Dividends Tax (DT) ²	Other		Value Added Tax (VAT)	Fuel levy	Customs duties ³	Specific excise duties	Other		
1994/95	44 973	11 961	1 304		58 238	29 288	8 351	5 606	5 431		48 678	113 775
1995/96	51 179	14 059	1 262		66 501	32 768	8 928	6 170	6 075		53 941	127 278
1996/97	59 520	16 985	1 338		77 843	35 903	10 392	7 200	5 912		59 407	147 332
1997/98	68 342	19 696	1 446		89 485	40 096	12 091	5 639	7 426		65 251	165 327
1998/99	77 734	20 388	1 931		100 053	43 985	13 640	6 053	8 053		71 731	184 786
1999/00	85 884	20 972	3 150		110 005	48 377	14 290	6 778	8 886		78 331	201 266
2000/01	86 478	29 492	4 031		120 001	54 455	14 495	8 227	9 127		86 304	220 119
2001/02	90 390	42 354	7 163		139 907	61 057	14 923	8 680	9 797		94 457	252 295
2002/03	94 337	55 745	6 326		156 407	70 150	15 334	9 620	10 423		105 526	281 939
2003/04	98 495	60 881	6 133		165 509	80 682	16 652	8 414	11 365		117 113	302 443
2004/05	111 697	71 629	7 487	9 382	200 195	98 158	19 190	12 888	13 067	11 480	154 784	354 978
2005/06	126 416	87 327	12 278	10 309	236 330	114 352	20 507	18 303	14 547	13 157	180 865	417 196
2006/07	141 397	120 111	15 291	9 583	286 383	134 463	21 845	23 697	16 369	12 793	209 166	495 549
2007/08	169 539	141 635	20 585	7 348	339 108	150 443	23 741	26 470	18 218	14 835	233 707	572 815
2008/09	196 068	167 202	20 018	8 404	391 692	154 343	24 884	22 751	20 185	11 246	233 408	625 100
2009/10	206 484	136 978	15 468	8 740	367 669	147 941	28 833	19 577	21 289	13 396	231 036	598 705
2010/11	228 096	134 635	17 178	9 531	389 440	183 571	34 418	26 637	22 968	17 149	284 743	674 183
2011/12	251 339	153 272	21 965	11 278	437 855	191 020	36 602	34 198	25 411	17 564	304 795	742 650
2012/13	276 679	160 896	19 739	12 474	469 787	215 023	40 410	38 998	28 378	21 229	344 038	813 826
2013/14	310 929	179 520	17 309	13 691	521 449	237 667	43 685	44 179	29 039	23 996	378 566	900 015
2014/15	353 918	186 622	21 247	15 691	577 477	261 295	48 467	40 679	32 334	26 044	408 818	986 295
2015/16	389 280	193 385	23 934	17 558	624 158	281 111	55 607	46 250	35 077	27 779	445 825	1 069 983
2016/17	425 924	207 027	31 130	17 660	681 741	289 167	62 779	45 579	35 774	29 042	462 340	1 144 081
2017/18	462 903	220 239	27 894	19 704	730 740	297 998	70 949	49 152	37 356	30 271	485 724	1 216 464
2018/19	493 829	214 388	29 898	19 662	757 777	324 766	75 372	54 968	40 830	33 977	529 913	1 287 690
2019/20	529 172	214 986	27 930	20 709	792 798	346 761	80 175	55 428	46 827	33 778	562 969	1 355 766
2020/21	488 446	204 399	24 845	21 597	739 287	331 197	75 503	47 290	32 273	24 161	510 424	1 249 711
2021/22	555 507	323 465	33 429	15 637	928 039	390 895	88 889	57 994	49 705	48 233	635 716	1 563 754
2022/23	601 983	347 677	38 119	24 762	1 012 541	422 416	80 473	73 946	55 155	42 167	674 156	1 686 697
2023/24	651 384	316 862	39 173	26 414	1 033 833	447 557	91 508	70 549	53 522	43 901	707 037	1 740 870

All figures
in R million

Table 32: Share of tax revenue by type, 1994-2024. ¹⁶⁰

All figures in percentage

	Direct					Indirect					Total Indirect Taxes	Total tax revenue
	Personal Income Tax (PIT) ¹	Company Income Tax (CIT) ¹	Dividends Tax (DT) ²	Other	Total Direct Taxes	Value Added Tax (VAT)	Fuel levy	Customs duties ³	Specific excise duties	Other		
1994/95	39.5%	10.5%	1.1%	–	51.2%	25.7%	7.3%	4.9%	4.8%	–	42.8%	100.0%
1995/96	40.2%	11.0%	1.0%	–	52.2%	25.7%	7.0%	4.8%	4.8%	–	42.4%	100.0%
1996/97	40.4%	11.5%	0.9%	–	52.8%	24.4%	7.1%	4.9%	4.0%	–	40.3%	100.0%
1997/98	41.3%	11.9%	0.9%	–	54.1%	24.3%	7.3%	3.4%	4.5%	–	39.5%	100.0%
1998/99	42.1%	11.0%	1.0%	–	54.1%	23.8%	7.4%	3.3%	4.4%	–	38.8%	100.0%
1999/00	42.7%	10.4%	1.6%	–	54.7%	24.0%	7.1%	3.4%	4.4%	–	38.9%	100.0%
2000/01	39.3%	13.4%	1.8%	–	54.5%	24.7%	6.6%	3.7%	4.1%	–	39.2%	100.0%
2001/02	35.8%	16.8%	2.8%	–	55.5%	24.2%	5.9%	3.4%	3.9%	–	37.4%	100.0%
2002/03	33.5%	19.8%	2.2%	–	55.5%	24.9%	5.4%	3.4%	3.7%	–	37.4%	100.0%
2003/04	32.6%	20.1%	2.0%	–	54.7%	26.7%	5.5%	2.8%	3.8%	–	38.7%	100.0%
2004/05	31.5%	20.2%	2.1%	2.6%	56.4%	27.7%	5.4%	3.6%	3.7%	3.2%	43.6%	100.0%
2005/06	30.3%	20.9%	2.9%	2.5%	56.6%	27.4%	4.9%	4.4%	3.5%	3.2%	43.4%	100.0%
2006/07	28.5%	24.2%	3.1%	1.9%	57.8%	27.1%	4.4%	4.8%	3.3%	2.6%	42.2%	100.0%
2007/08	29.6%	24.7%	3.6%	1.3%	59.2%	26.3%	4.1%	4.6%	3.2%	2.6%	40.8%	100.0%
2008/09	31.4%	26.7%	3.2%	1.3%	62.7%	24.7%	4.0%	3.6%	3.2%	1.8%	37.3%	100.0%
2009/10	34.5%	22.9%	2.6%	1.5%	61.4%	24.7%	4.8%	3.3%	3.6%	2.2%	38.6%	100.0%
2010/11	33.8%	20.0%	2.5%	1.4%	57.8%	27.2%	5.1%	4.0%	3.4%	2.5%	42.2%	100.0%
2011/12	33.8%	20.6%	3.0%	1.5%	59.0%	25.7%	4.9%	4.6%	3.4%	2.4%	41.0%	100.0%
2012/13	34.0%	19.8%	2.4%	1.5%	57.7%	26.4%	5.0%	4.8%	3.5%	2.6%	42.3%	100.0%
2013/14	34.5%	19.9%	1.9%	1.5%	57.9%	26.4%	4.9%	4.9%	3.2%	2.7%	42.1%	100.0%
2014/15	35.9%	18.9%	2.2%	1.6%	58.6%	26.5%	4.9%	4.1%	3.3%	2.6%	41.4%	100.0%
2015/16	36.4%	18.1%	2.2%	1.6%	58.3%	26.3%	5.2%	4.3%	3.3%	2.6%	41.7%	100.0%
2016/17	37.2%	18.1%	2.7%	1.5%	59.6%	25.3%	5.5%	4.0%	3.1%	2.5%	40.4%	100.0%
2017/18	38.1%	18.1%	2.3%	1.6%	60.1%	24.5%	5.8%	4.0%	3.1%	2.5%	39.9%	100.0%
2018/19	38.3%	16.6%	2.3%	1.5%	58.8%	25.2%	5.9%	4.3%	3.2%	2.6%	41.2%	100.0%
2019/20	39.0%	15.9%	2.1%	1.5%	58.5%	25.6%	5.9%	4.1%	3.5%	2.5%	41.5%	100.0%
2020/21	39.1%	16.4%	2.0%	1.7%	59.2%	26.5%	6.0%	3.8%	2.6%	1.9%	40.8%	100.0%
2021/22	35.5%	20.7%	2.1%	1.0%	59.3%	25.0%	5.7%	3.7%	3.2%	3.1%	40.7%	100.0%
2022/23	35.7%	20.6%	2.3%	1.5%	60.0%	25.0%	4.8%	4.4%	3.3%	2.5%	40.0%	100.0%
2023/24	37.4%	18.2%	2.3%	1.5%	59.4%	25.7%	5.3%	4.1%	3.1%	2.5%	40.6%	100.0%

Table 33: Tax type as a percentage of GDP, 1994-2024. ¹⁶¹

All figures in
percentage
of GDP

	Direct				Total Direct Taxes	Indirect					Total Indirect Taxes	Total tax revenue
	Personal Income Tax (PIT) ¹	Company Income Tax (CIT) ¹	Dividends Tax (DT) ²	Other		Value Added Tax (VAT)	Fuel levy	Customs duties ³	Specific excise duties	Other		
1994/95	8.0%	2.1%	0.2%	–	10.4%	5.2%	1.5%	1.0%	1.0%	–	8.7%	20.2%
1995/96	8.0%	2.2%	0.2%	–	10.4%	5.1%	1.4%	1.0%	0.9%	–	8.4%	19.8%
1996/97	8.3%	2.4%	0.2%	–	10.8%	5.0%	1.4%	1.0%	0.8%	–	8.2%	20.4%
1997/98	8.6%	2.5%	0.2%	–	11.2%	5.0%	1.5%	0.7%	0.9%	–	8.2%	20.8%
1998/99	9.0%	2.4%	0.2%	–	11.6%	5.1%	1.6%	0.7%	0.9%	–	8.3%	21.4%
1999/00	9.0%	2.2%	0.3%	–	11.5%	5.1%	1.5%	0.7%	0.9%	–	8.2%	21.1%
2000/01	8.0%	2.7%	0.4%	–	11.0%	5.0%	1.3%	0.8%	0.8%	–	7.9%	20.2%
2001/02	7.5%	3.5%	0.6%	–	11.6%	5.1%	1.2%	0.7%	0.8%	–	7.8%	20.9%
2002/03	6.7%	4.0%	0.5%	–	11.2%	5.0%	1.1%	0.7%	0.7%	–	7.5%	20.1%
2003/04	6.5%	4.0%	0.4%	–	10.9%	5.3%	1.1%	0.6%	0.7%	–	7.7%	19.8%
2004/05	6.6%	4.2%	0.4%	0.6%	11.8%	5.8%	1.1%	0.8%	0.8%	0.7%	9.2%	21.0%
2005/06	6.7%	4.6%	0.7%	0.5%	12.5%	6.1%	1.1%	1.0%	0.8%	0.7%	9.6%	22.1%
2006/07	6.6%	5.6%	0.7%	0.4%	13.4%	6.3%	1.0%	1.1%	0.8%	0.6%	9.8%	23.2%
2007/08	7.0%	5.9%	0.9%	0.3%	14.1%	6.2%	1.0%	1.1%	0.8%	0.6%	9.7%	23.8%
2008/09	7.4%	6.3%	0.8%	0.3%	14.7%	5.8%	0.9%	0.9%	0.8%	0.4%	8.8%	23.5%
2009/10	7.3%	4.8%	0.5%	0.3%	12.9%	5.2%	1.0%	0.7%	0.7%	0.5%	8.1%	21.1%
2010/11	7.3%	4.3%	0.5%	0.3%	12.5%	5.9%	1.1%	0.9%	0.7%	0.5%	9.1%	21.6%
2011/12	7.4%	4.5%	0.6%	0.3%	12.9%	5.6%	1.1%	1.0%	0.7%	0.5%	9.0%	21.9%
2012/13	7.6%	4.4%	0.5%	0.3%	12.9%	5.9%	1.1%	1.1%	0.8%	0.6%	9.5%	22.4%
2013/14	7.9%	4.6%	0.4%	0.3%	13.2%	6.0%	1.1%	1.1%	0.7%	0.6%	9.6%	22.8%
2014/15	8.4%	4.4%	0.5%	0.4%	13.7%	6.2%	1.2%	1.0%	0.8%	0.6%	9.7%	23.5%
2015/16	8.7%	4.3%	0.5%	0.4%	13.9%	6.2%	1.2%	1.0%	0.8%	0.6%	9.9%	23.8%
2016/17	8.8%	4.3%	0.6%	0.4%	14.1%	6.0%	1.3%	0.9%	0.7%	0.6%	9.6%	23.7%
2017/18	9.0%	4.3%	0.5%	0.4%	14.2%	5.8%	1.4%	1.0%	0.7%	0.6%	9.5%	23.7%
2018/19	9.1%	4.0%	0.6%	0.4%	14.0%	6.0%	1.4%	1.0%	0.8%	0.6%	9.8%	23.7%
2019/20	9.3%	3.8%	0.5%	0.4%	13.9%	6.1%	1.4%	1.0%	0.8%	0.6%	9.9%	23.7%
2020/21	8.7%	3.6%	0.4%	0.4%	13.2%	5.9%	1.3%	0.8%	0.6%	0.4%	9.1%	22.3%
2021/22	8.8%	5.1%	0.5%	0.2%	14.7%	6.2%	1.4%	0.9%	0.8%	0.8%	10.1%	24.8%
2022/23	9.0%	5.2%	0.6%	0.4%	15.1%	6.3%	1.2%	1.1%	0.8%	0.6%	10.0%	25.1%
2023/24	9.2%	4.5%	0.6%	0.4%	14.6%	6.3%	1.3%	1.0%	0.8%	0.6%	10.0%	24.5%

Notes:

1. Includes Interest on overdue income tax.
2. Dividends Tax (DT) replaced Secondary Tax on Companies (STC) on 1 April 2012. SARS still accounts for residual amounts for STC.
3. Excludes miscellaneous customs and excise receipts.

APPENDIX B: BRACKET OVER-ADJUSTMENT

Our aim is to understand how much tax individuals would be liable for if PIT rates since 1995 had only been adjusted for inflation and no more. To estimate the amount lost per annum due to bracket over-adjustment, we employ the following methodology.

We adjust 1995 taxable income up by inflation to calculate the 2024 equivalent (column B). In real terms these two levels of income are therefore equivalent. We then calculate how much tax each 1995 level of income would be liable for, using the 1995 tax brackets (column C) and the resulting average tax rates (column D). In order to apply the same level of tax to the same real income level in 2024, we apply the average tax

rates experienced in 1995 to the equivalent 2024 income level (column E). The result is the tax liability for each level of income if tax brackets had only been adjusted for inflation and noting more. The resulting average tax rates (column F) are therefore the same as those experienced by the equivalent income in 1995 (column D).

We then calculate how much tax each 2024 taxable income level is liable for with 2025 tax brackets (column G) as well as the resulting average rates (column H). The tax forfeited is the difference between what each income level would have paid, with 1995 average rates compared to 2025 actual rates (column I).

Below: Table 34: Bracket over-adjustment, 1995 and 2025.

1995 ¹	2024 ²	19951		2024				Tax Forfeited per taxpayer	Tax Forfeited as % of income
Taxable income (Rand) Tax		1995 actual rates		1995 average rates ³		2025 actual rates			
		Average rate	Tax	Average rate	Tax	Average rate			
A	B	C	D=C/A	E = B x D	F = E/B	G	H = G/B	I = E - G	J = I/B
22 000	116 942	2 385	10.8%	12 678	10.8%	3 814	3.3%	8 863	7.58%
25 000	132 888	3 225	12.9%	17 143	12.9%	6 685	5.0%	10 458	7.87%
30 000	159 466	4 625	15.4%	24 584	15.4%	11 469	7.2%	13 115	8.22%
40 000	212 621	8 225	20.6%	43 720	20.6%	21 037	9.9%	22 683	10.67%
50 000	265 776	12 325	24.7%	65 514	24.7%	32 899	12.4%	32 615	12.27%
100 000	531 553	33 765	33.8%	179 479	33.8%	110 991	20.9%	68 488	12.88%
150 000	797 329	55 265	36.8%	293 763	36.8%	210 400	26.4%	83 362	10.46%
200 000	1 063 106	76 765	38.4%	408 047	38.4%	318 157	29.9%	89 889	8.46%
250 000	1 328 882	98 265	39.3%	522 330	39.3%	427 126	32.1%	95 205	7.16%
300 000	1 594 659	119 765	39.9%	636 614	39.9%	536 094	33.6%	100 520	6.30%
350 000	1 860 435	141 265	40.4%	750 898	40.4%	646 800	34.8%	104 098	5.60%
400 000	2 126 211	162 765	40.7%	865 182	40.7%	766 399	36.0%	98 783	4.65%
450 000	2 391 988	184 265	40.9%	979 466	40.9%	885 999	37.0%	93 467	3.91%
500 000	2 657 764	205 765	41.2%	1 093 750	41.2%	1 005 598	37.8%	88 152	3.32%
600 000	3 189 317	248 765	41.5%	1 322 317	41.5%	1 244 797	39.0%	77 521	2.43%
700 000	3 720 870	291 765	41.7%	1 550 885	41.7%	1 483 995	39.9%	66 890	1.80%
800 000	4 252 423	334 765	41.8%	1 779 453	41.8%	1 723 194	40.5%	56 259	1.32%
900 000	4 783 976	377 765	42.0%	2 008 021	42.0%	1 962 393	41.0%	45 628	0.95%
1 000 000	5 315 528	420 765	42.1%	2 236 588	42.1%	2 201 592	41.4%	34 997	0.66%

Notes:

- 1. Excludes the Transitional Levy.
 - 2. 2024 based on 1995 taxable income adjusted by inflation.
 - 3. This example includes fiscal drag relief over the period 1995 to 2025 (i.e., we compare the same level of real income while **average** tax rates are kept at 1995 level).
- Source: Authors' calculations, adapted from Tax Statistics 2023 Table 2.2, SARS ¹⁷⁵

In Table 32 we estimate the total tax forfeited every year. To do this, we use the number of taxpayers reported within each taxable income group. Taxable income groups do not correspond directly to the taxable income used in Table 31, when estimating the tax forfeited per taxpayer. So we need to calculate an estimated tax forfeited per taxpayer for the taxable income groups given in Table 32. We use two scenarios, a lower-bound estimate that assumes that the average income for a taxable income group is equivalent to the minimum of the income group. This is the lowest average income possible, if all individuals in the group earned exactly the

group minimum. Our upper-bound estimate assumes that the average income of the taxable income group is the mid-point of the group. This would be the case if taxpayers were uniformly distributed within the taxable income group. The most likely scenario is that taxpayers are overrepresented at the lower end of the group, with an average income somewhere in between the minimum and the mid-point. Our two estimates therefore serve as a lower-bound and upper-bound estimate, with the true total tax forfeited somewhere between the two.

To calculate the tax forfeited per taxpayer, we use a linear approximation of the two closest income points from Table 31, column B. This allows us to estimate the tax forfeited per taxpayer based on Table 31, column I. For example,

$$\begin{aligned}
 120\,000 &= I_1 + \frac{120\,000 - B_1}{B_2 - B_1} \times (I_2 - I_1) = 8863 + \frac{120\,000 - 116\,942}{132\,888 - 116\,942} \times (10\,458 - 8863) \\
 &= 8863 + 0.19 \times (10\,458 - 8863) \\
 &= 9169
 \end{aligned}$$

Table 35: Estimated Total Forfeited Tax. Source: Authors' calculations, Tax Statistics Table A2.1.1, SARS.¹⁶²

Taxable income group	Assumed Average Income		Number of taxpayers	Tax forfeited per taxpayer		Estimated Total forfeited tax	
	Lower-bound estimate: Lowest point	Upper-bound estimate: Mid-point		Lower-bound	Upper-bound	Lower-bound	Upper-bound
120 001–130 000	120 000	125 000	107 898	9 169	9 669	989 303 836	1 043 252 836
130 001–140 000	130 000	135 000	107 929	10 169	10 669	1 097 517 071	1 151 481 571
140 001–150 000	140 000	145 000	107 499	11 169	11 669	1 200 643 452	1 254 392 952
150 001–200 000	150 000	175 000	517 137	12 169	15 912	6 292 978 199	8 228 483 285
200 001–250 000	200 000	225 000	479 541	20 412	24 996	9 788 204 821	11 986 750 375
250 001–350 000	250 000	300 000	870 516	29 667	37 234	25 825 886 732	32 413 049 342
350 001–500 000	350 000	425 000	894 995	43 983	54 106	39 364 538 340	48 424 584 385
500 001–750 000	500 000	625 000	622 484	64 229	73 718	39 981 522 453	45 888 068 582
750 001–1 000 000	750 000	875 000	252 083	80 713	85 270	20 346 483 808	21 495 043 092
1 000 001–2 000 000	1 000 000	1 500 000	229 926	88 339	98 627	20 311 538 200	22 676 933 445
2 000 001–5 000 000	2 000 000	3 500 000	50 937	101 307	71 307	5 160 279 498	3 632 169 498
5 000 001+	5 000 000	5 000 000	9 435	41 307	41 307	389 732 441	389 732 441
Total Forfeited Tax						170 748 628 852	198 583 941 804

Finally we can use the lower and upper bound estimates for total tax forfeited to calculate what the PIT as a percentage of GDP and as a percentage total tax revenue would have been in the absence of bracket over-adjustment.

$$PIT\ as\ \% \ of\ GDP,\ lower\ bound = \frac{2024/25\ PIT\ Revenue + Tax\ Forfeited}{2024/25\ GDP} \times 100 = \frac{738\ 749 + 170\ 749}{7\ 452\ 214} \times 100 = 12.2\%$$

$$PIT\ as\ \% \ of\ GDP,\ upper\ bound = \frac{2024/25\ PIT\ Revenue + Tax\ Forfeited}{2024/25\ GDP} \times 100 = \frac{738\ 749 + 198\ 584}{7\ 452\ 214} \times 100 = 12.6\%$$

$$PIT\ as\ \% \ of\ total\ tax,\ lower\ bound = \frac{2024/25\ PIT\ Revenue + Tax\ Forfeited}{2024/25\ Total\ Tax\ Revenue} \times 100 = \frac{738\ 749 + 170\ 749}{909\ 498} \times 100 = 48.8\%$$

$$PIT\ as\ \% \ of\ total\ tax,\ upper\ bound = \frac{2024/25\ PIT\ Revenue + Tax\ Forfeited}{2024/25\ Total\ Tax\ Revenue} \times 100 = \frac{738\ 749 + 198\ 584}{909\ 498} \times 100 = 50.3\%$$

APPENDIX C: PIT DEDUCTIONS

Table 36: Deductions - by taxable income group, 2022. Source: Tax Statistics Tables A2.7.2, A2.7.5, A2.7.7, & A2.7.8, SARS. ¹⁶³ Note: *Fixed cost - business cost claimed against travel allowance.

		Travel expenses*		Retirement fund contributions		Medical Tax Credits and additional expenses	
Taxable income group		Amount (R million)	%	Amount (R million)	%	Amount (R million)	%
A:	< 0	9	0.0%	53	0.0%	0	0.0%
B:	= 0	3	0.0%	28	0.0%	0	0.0%
C:	1 – 20 000	2	0.0%	87	0.0%	0	0.0%
D:	20 001 – 30 000	1	0.0%	85	0.0%	0	0.0%
E:	30 001 – 40 000	3	0.0%	115	0.1%	0	0.0%
F:	40 001 – 50 000	3	0.0%	166	0.1%	0	0.0%
G:	50 001 – 60 000	7	0.0%	233	0.1%	1	0.0%
H:	60 001 – 70 000	9	0.0%	291	0.1%	1	0.0%
I:	70 001 – 80 000	15	0.1%	381	0.2%	1	0.0%
J:	80 001 – 90 000	21	0.1%	539	0.2%	2	0.0%
K:	90 000 – 100 000	26	0.1%	628	0.3%	23	0.1%
L:	100 001 – 110 000	31	0.2%	738	0.3%	55	0.2%
M:	110 001 – 120 000	38	0.2%	871	0.4%	87	0.3%
N:	120 001 – 130 000	47	0.2%	932	0.4%	113	0.4%
O:	130 001 – 140 000	56	0.3%	1 094	0.5%	152	0.5%
P:	140 001 – 150 000	65	0.3%	1 230	0.5%	205	0.7%
Q:	150 001 – 200 000	413	2.0%	7 897	3.5%	1 749	5.8%
R:	200 001 – 250 000	566	2.8%	10 439	4.7%	5 502	18.1%
S:	250 001 – 350 000	1 449	7.1%	31 381	14.0%	5 832	19.2%
T:	350 001 – 500 000	3 032	14.8%	50 375	22.5%	4 791	15.8%
U:	500 001 – 750 000	5 526	27.0%	47 478	21.2%	5 918	19.5%
V:	750 001 – 1 000 000	4 067	19.9%	25 664	11.5%	2 551	8.4%
W:	1 000 001 – 2 000 000	3 987	19.5%	31 140	13.9%	2 603	8.6%
X:	2 000 001 – 5 000 000	931	4.6%	10 093	4.5%	674	2.2%
Y:	5 000 001 +	135	0.7%	2 156	1.0%	140	0.5%
Total		20 442	100.0%	224 094	100.0%	30 402	100.0%

Table 37: Taxpayers by taxable income group and gender, 2022. Source: Authors' adaptations, Tax Statistics Table A2.1.6, SARS.¹⁶⁴

Taxable income group	Women	Men	Total	% Women	% Men
<= 0	93 339	120 389	213 728	44%	56%
1–60 000	457 239	412 356	869 595	53%	47%
60 001–120 000	301 170	354 914	656 084	46%	54%
120 001–350 000	1 113 997	1 076 523	2 190 520	51%	49%
350 001–500 000	473 473	421 522	894 995	53%	47%
500 001–750 000	272 275	350 209	622 484	44%	56%
750 001–1 000 000	90 120	161 963	252 083	36%	64%
1 000 001–2 000 000	70 157	159 769	229 926	31%	70%
2 000 001–5 000 000	11 471	39 466	50 937	23%	78%
5 000 001+	1 465	7 970	9 435	16%	85%
Total	2 884 706	3 105 081	5 989 787	48%	52%

Table 38: Average tax rate by taxable income group. Source: Authors' edits, Tax Statistics Table A2.1.1 & A2.1.2, SARS.¹⁶⁵

Taxable income group		Income before deductions (R million)	Tax assessed (R million)	Average Tax Rate
A:	< 0	-31 248	1	0.0%
B:	= 0	0	4	0.0%
C:	1–20 000	3 710	3	0.1%
D:	20 001–30 000	2 928	3	0.1%
E:	30 001–40 000	3 537	4	0.1%
F:	40 001–50 000	4 744	5	0.1%
G:	50 001–60 000	5 472	4	0.1%
H:	60 001–70 000	5 873	5	0.1%
I:	70 001–80 000	6 806	5	0.1%
J:	80 001–90 000	9 072	12	0.1%
K:	90 000–100 000	9 559	125	1.3%
L:	100 001–110 000	10 909	270	2.5%
M:	110 001–120 000	12 148	431	3.6%
N:	120 001–130 000	12 410	529	4.3%
O:	130 001–140 000	12 986	651	5.0%
P:	140 001–150 000	14 101	781	5.5%
Q:	150 001–200 000	80 010	5 761	7.2%
R:	200 001–250 000	98 261	9 278	9.4%
S:	250 001–350 000	224 973	32 308	14.4%
T:	350 001–500 000	380 668	62 906	16.5%
U:	500 001–750 000	467 539	83 650	17.9%
V:	750 001–1 000 000	270 683	58 872	21.7%
W:	1 000 001–2 000 000	423 120	96 270	22.8%
X:	2 000 001–5 000 000	189 067	54 857	29.0%
Y:	5 000 001+	106 868	40 850	38.2%
Total		2 324 194	447 584	19.3%

APPENDIX D: REVENUE FROM WEALTH TAXES

Table 39: Total SARS and Municipal Tax Revenue.^{166, 167}

R million	Municipal Taxes on Property	SARS Total Revenue	SARS + Municipal Tax Revenue
2004/05		354 979	354 979
2005/06		417 196	417 196
2006/07		495 549	495 549
2007/08		572 815	572 815
2008/09		625 100	625 100
2009/10	23 071	598 705	621 776
2010/11	27 541	674 183	701 724
2011/12	31 647	742 650	774 296
2012/13	34 168	813 826	847 994
2013/14	38 457	900 015	938 472
2014/15	43 198	986 295	1 029 493
2015/16	48 138	1 069 983	1 118 120
2016/17	52 292	1 144 081	1 196 373
2017/18	54 697	1 216 464	1 271 161
2018/19	60 210	1 287 690	1 347 900
2019/20	69 638	1 355 766	1 425 404
2020/21	73 571	1 249 711	1 323 282
2021/22	75 243	1 563 754	1 638 997
2022/23	80 229	1 686 697	1 766 927
2023/24	86 786	1 740 870	1 827 656

Table 40: Revenue from wealth taxes. Source: Tax Statistics Table A1.5.1, A1.2.1 & Table 6.1 ¹⁶⁸ & Financial Census of Municipalities. ¹⁶⁹

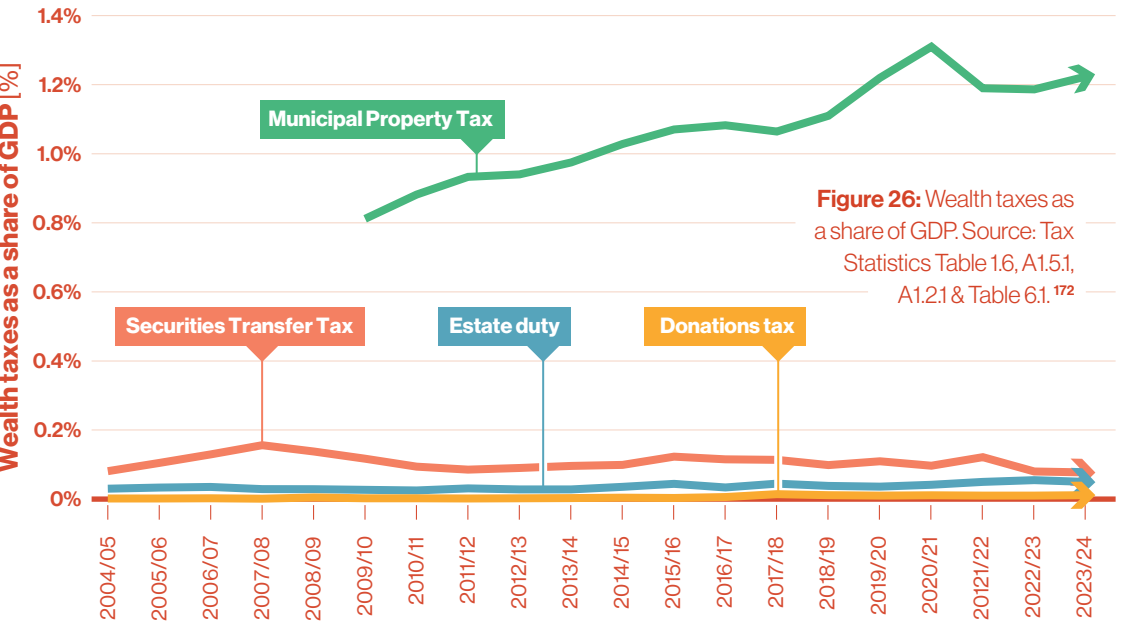
R million	Municipal Property Tax	Transfer duties	Securities Transfer Tax	Estate duty	Donations tax	Total
2004/05		7 115	1 366	507	25	9 013
2005/06		8 510	1 973	625	29	11 138
2006/07		6 774	2 764	747	47	10 332
2007/08		7 408	3 757	691	28	11 884
2008/09		4 931	3 664	757	125	9 477
2009/10	23 071	4 683	3 324	759	60	31 897
2010/11	27 541	5 322	2 933	782	65	36 643
2011/12	31 647	3 834	2 886	1 045	53	39 464
2012/13	34 168	4 278	3 272	1 013	82	42 814
2013/14	38 457	5 489	3 784	1 102	113	48 944
2014/15	43 198	6 666	4 150	1 489	167	55 669
2015/16	48 138	7 396	5 531	1 982	135	63 182
2016/17	52 292	8 208	5 553	1 619	280	67 953
2017/18	54 697	7 723	5 838	2 292	732	71 282
2018/19	60 210	7 243	5 335	2 069	604	75 462
2019/20	69 638	7 120	6 240	2 048	572	85 618
2020/21	73 571	7 606	5 422	2 316	602	89 518
2021/22	75 243	10 576	7 680	3 141	635	97 276
2022/23	80 229	11 452	5 401	3 702	683	101 467
2023/24	86 786	9 581	5 485	3 533	801	106 186

Table 41: Share of total tax revenue. Source: Tax Statistics Table 1.6, A1.5.1, A1.2.1 & Table 6.1. ¹⁷⁰

Year	Municipal Property Tax	Transfer duties	Securities Transfer Tax	Estate duty	Donations tax	Total
2004/05		2.00%	0.38%	0.14%	0.01%	2.54%
2005/06		2.04%	0.47%	0.15%	0.01%	2.67%
2006/07		1.37%	0.56%	0.15%	0.01%	2.09%
2007/08		1.29%	0.66%	0.12%	0.00%	2.07%
2008/09		0.79%	0.59%	0.12%	0.02%	1.52%
2009/10	3.71%	0.75%	0.53%	0.12%	0.01%	5.13%
2010/11	3.92%	0.76%	0.42%	0.11%	0.01%	5.22%
2011/12	4.09%	0.50%	0.37%	0.13%	0.01%	5.10%
2012/13	4.03%	0.50%	0.39%	0.12%	0.01%	5.05%
2013/14	4.10%	0.58%	0.40%	0.12%	0.01%	5.22%
2014/15	4.20%	0.65%	0.40%	0.14%	0.02%	5.41%
2015/16	4.31%	0.66%	0.49%	0.18%	0.01%	5.65%
2016/17	4.37%	0.69%	0.46%	0.14%	0.02%	5.68%
2017/18	4.30%	0.61%	0.46%	0.18%	0.06%	5.61%
2018/19	4.47%	0.54%	0.40%	0.15%	0.04%	5.60%
2019/20	4.89%	0.50%	0.44%	0.14%	0.04%	6.01%
2020/21	5.56%	0.57%	0.41%	0.18%	0.05%	6.76%
2021/22	4.59%	0.65%	0.47%	0.19%	0.04%	5.94%
2022/23	4.54%	0.65%	0.31%	0.21%	0.04%	5.74%
2023/24	4.75%	0.52%	0.30%	0.19%	0.04%	5.81%

Table 42: Wealth taxes as a share of GDP. Source: Tax Statistics Table 1.6, A1.5.1, A1.2.1 & Table 6.1. ¹⁷¹

Year	Municipal Property Tax	Transfer duties	Securities Transfer Tax	Estate duty	Donations tax	Total
2004/05		0.42%	0.08%	0.03%	0.00%	0.53%
2005/06		0.45%	0.10%	0.03%	0.00%	0.59%
2006/07		0.32%	0.13%	0.04%	0.00%	0.48%
2007/08		0.31%	0.16%	0.03%	0.00%	0.49%
2008/09		0.19%	0.14%	0.03%	0.00%	0.36%
2009/10	0.81%	0.16%	0.12%	0.03%	0.00%	1.12%
2010/11	0.88%	0.17%	0.09%	0.03%	0.00%	1.17%
2011/12	0.93%	0.11%	0.09%	0.03%	0.00%	1.16%
2012/13	0.94%	0.12%	0.09%	0.03%	0.00%	1.18%
2013/14	0.97%	0.14%	0.10%	0.03%	0.00%	1.24%
2014/15	1.03%	0.16%	0.10%	0.04%	0.00%	1.33%
2015/16	1.07%	0.16%	0.12%	0.04%	0.00%	1.40%
2016/17	1.08%	0.17%	0.11%	0.03%	0.01%	1.41%
2017/18	1.06%	0.15%	0.11%	0.04%	0.01%	1.39%
2018/19	1.11%	0.13%	0.10%	0.04%	0.01%	1.39%
2019/20	1.22%	0.12%	0.11%	0.04%	0.01%	1.50%
2020/21	1.31%	0.14%	0.10%	0.04%	0.01%	1.59%
2021/22	1.19%	0.17%	0.12%	0.05%	0.01%	1.54%
2022/23	1.19%	0.17%	0.08%	0.05%	0.01%	1.50%
2023/24	1.22%	0.14%	0.08%	0.05%	0.01%	1.50%



APPENDIX E: GLOBAL TAX RATES ¹⁷³

Table 43: Global tax rates.

Territory	Headline CIT rate (%)	Headline inheritance tax rate (%)	Headline gift tax rate (%)	Standard VAT rate (%)
Algeria	19% manufacturing; 23% building, public works 26% other	5	5	19
Argentina	35	-	-	21
Australia	30% (25% 'small-medium')	-	-	10
Belgium	25	3 - 55	3 - 7	21
Botswana	22	12.5	12.5	14
Brazil	34	8	8	17
Canada	15%.+ 8%-16% territorial CIT	-	-	5 - 15
China	25	-	-	13 / 9 / 6
Denmark	22	15 / 36 / income tax	15 / 36 / income tax	25
Egypt	22.5	-	-	14
Ethiopia	30	-	-	15
France	25	60	60	20
Germany	15.825% + 8.75%-20.3%	50	50	19
Ghana	25	-	Income Tax Rate	15 / 5 / 3
India	Domestic: 25% / 30% , Foreign: 35%	-	Income Tax Rate	18
Italy	24	8	8	22
Japan	23.2	55	55	10
Kenya	30	-	-	16
Malawi	30	-	-	16.5
Mexico	30	-	Income Tax Rate	16
Mozambique	32 (10% agricultural & transportation)	10	10	16
Nigeria	30% large; 20% medium; 0% small	-	-	7.5
Norway	22 (25% financial sector).	-	-	25
Rwanda	28	-	-	18
Senegal	30	-	-	18
South Africa	27	25	25	15
Sweden	20.6	-	-	25
Switzerland	11.9% - 20.5%,	0 - 50	0 - 50	8.1
Tanzania	30	-	-	18
Uganda	30	-	-	18
United Kingdom	25	40	20 - 40	20
United States	21% + 1% - 12% (state tax)	40	40	3 - 12

Table 44: Global Capital Gains Tax rates.

	Headline capital gains tax rate (%)	
Territory	Corporate	Individual
Algeria	Normal CIT rate.	Resident: 15;
		Non-residents: 20
Argentina	Normal CIT rate.	15
Australia	Normal CIT rate.	Normal PIT rate.
Belgium	Normal CIT rate.	In general, exempted (except in some specific cases)
Botswana	Normal CIT rate.	25
Brazil	15 (34 including surtax)	22.5
Canada	50% Inclusion Rate: Normal CIT rate.	50% Inclusion Rate: Normal PIT rate.
China	Normal CIT rate.	20
Denmark	Normal CIT rate.	Normal PIT rate.
Egypt	0, 10, or 22.5	0, 10, or 27.5
Ethiopia	15-30.	15%-30%.
France	Normal CIT rate.	30, plus 4 for high earners
Germany	Normal CIT rate.	26.38
Ghana	Normal CIT rate.	Normal PIT rate.
India	12.5 / 20 / 35 (plus applicable surcharge and cess)	12.5 / 20 (plus applicable surcharge and cess)
Italy	Normal CIT rate.	26
Japan	Normal CIT rate.	Stocks: 20.315
		Property: 39.63
Kenya	15	15
Malawi	Normal CIT rate.	Normal PIT rate.
Mexico	30	-
Mozambique	Normal CIT rate.	Normal PIT rate.
Nigeria	10	10
Norway	22	37.84
Rwanda	5	5
Senegal	Normal CIT rate.	Normal PIT rate.
South Africa	80% Inclusion Rate: 21.6	40% Inclusion Rate: 18
Sweden	Normal CIT rate.	30
Switzerland	11.9 - 20.5.	Movable assets: Exempt.
		Non-movable assets: tax rate varies per canton.
Tanzania	Normal CIT rate.	Residents: 3
		Non-residents: 30;
		Sale of mineral or petroleum rights: 30
Uganda	Normal CIT rate.	40
United Kingdom	Normal CIT rate.	24-32
United States	21	20

Table 45: Global Withholding tax rates. ¹⁷⁴

Territory	WHT rates (%)					
	Residents			Non-residents		
	Dividends	Interest	Royalties	Dividends	Interest	Royalties
Algeria	15	10	0	15	10	30
Argentina*	0 or 7	6	6	7	0, 15, or 35	21 or 28;
Australia	0	0	0	30	10	30
Belgium	30	30	30	30	30	30
Botswana	10	10	10	10	15	15
Brazil**	NA	15-22.5	NA	0	15	15
Canada	NA	NA	NA	25	25	25
China	NA	NA	NA	10	10	10
Denmark	27	22	22	27	22	22
Egypt	5 or 10	NA	NA	5	10	20
Ethiopia	10	5 or 10	5	10	5 or 10	5
France***	NA	NA	NA	25	0	25
Germany	25	25	0	25	0	15
Ghana	8	8	15	8	8	15
India	10	10	2 - 10	20	5	35
Italy	0	0 or 26	0	26	26	30
Japan	20	20	0	15	20	20
Kenya	5	10	25	15	20	25
Malawi	10	20	20	15	15	15
Mexico	10	0.08	NA	10	4.9 - 35	5 - 35
Mozambique	20	20	20	20	20	20
Nigeria	10	10	10	10	10	10
Norway	NA	NA	NA	25	15	15
Rwanda	15	15	15	15	15	15
Senegal	10	8-16	20	10	8-16	20
South Africa	20	0	0	20	15	15
Sweden	NA	NA	NA	30	0	20.6
Switzerland	0 - 35	0 - 35	0	0 - 35	0 - 35	0
Tanzania	5 or 10	10	15	5 or 10	10	15
Uganda	15	15	NA	15	15	15
United Kingdom	0	20	20	0	20	20
United States	NA	NA	NA	30	30	30

Notes:

* Residents who are not registered taxpayers pay interest and royalties tax at 28%.

** Non-residents from tax havens pay 25% on interest and royalties.

*** Non-resident individuals pay 12.8% on dividends.

NOTES

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SOUTH AFRICA AND THE RACE TO THE BOTTOM

Countries across the world have been under pressure to reduce the taxes paid by companies. To what extent has South Africa participated in the tax “race to the bottom” on a national level, and where is it possible to reverse this for the sake of revenue mobilisation?



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Acknowledging the complex debate around increasing the statutory CIT rates, this chapter focuses instead on options to increase revenue from corporate taxation through other reforms to the domestic corporate tax framework, such as tax incentives and tax transparency, which may increase effective CIT revenues from the domestic economy.

INTRODUCTION

Other sections in this report have established the need for South Africa to undertake additional spending in order to meet the needs of a growing population, while addressing historic inequality and mass unemployment. At the same time, the notion of increasing corporate taxation is highly contested. From the 1980s, there has been a global tendency for corporate income tax rates to decline, as countries try to out-compete one another in what has been called a “**race to the bottom**”. There is also significant debate around the economic impacts of corporate tax rates as well as the benefits of incentives, with the prevailing orthodox view being that high corporate income tax rates discourage productive investment and reduce growth. In response to the 2025 national budget debate, the National Treasury has argued that, according to their modelling, CIT is the most economically destructive to growth of the three main taxes (CIT, PIT, and VAT) to raise, and is therefore strongly opposed to any increases.¹

THE CORPORATE INCOME TAX FRAMEWORK

CIT is levied on all income earned or accrued during a financial year by a variety of legal entities, and is collected by SARS. The following types of companies, among others liable under the Income Tax Act of 1962, are subject to CIT:

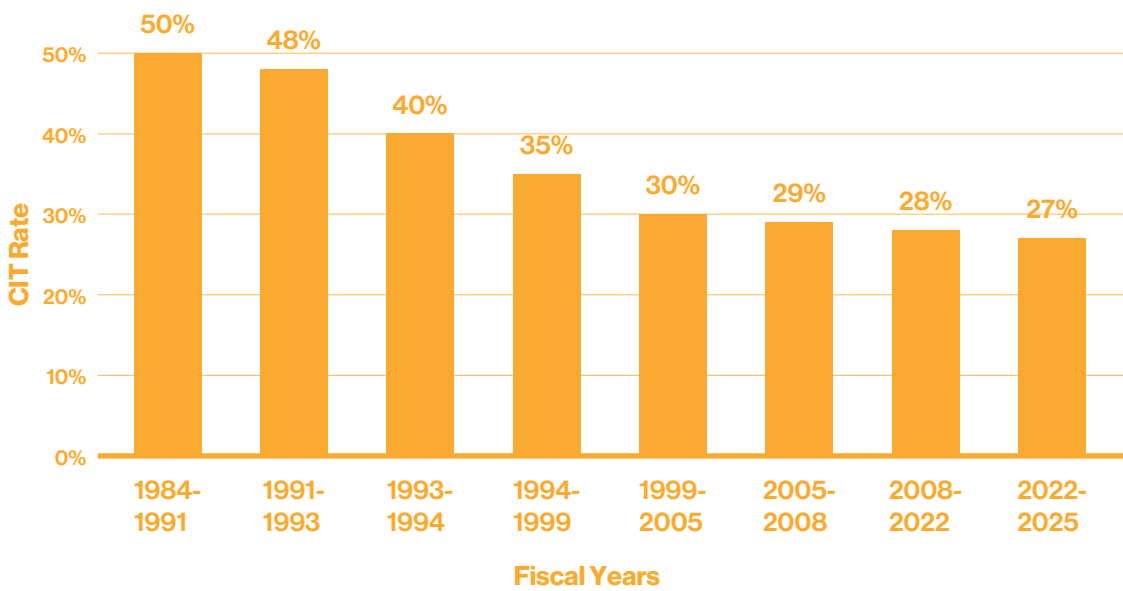
- Public companies (“Ltd”);
- Private companies (“Pty (Ltd)”);
- State owned companies (“SOC”);
- Personal Liability Companies (“Inc”);
- Non profit companies;
- Close Corporations (“CC”);
- Co-operatives;
- Collective Investment Schemes;
- Small Business Corporations (s12E);
- Body Corporates;
- Share Block Companies;
- Dormant Companies; and
- Public Benefit Companies.²

Figure 1 illustrates the evolution of the statutory CIT rate over time.

Since the 1980s the CIT rate in South Africa has been steadily declining. Between 1984 and 1991 it stood at 50%. Currently it is 27%, having most recently been adjusted down from 28% in 2022. This decline reflects a global trend of decreasing corporate tax rates, often described as a “race to the bottom,” as governments have sought to attract private sector investment. Between 1985 and 2018, the average global CIT rate more than halved, dropping from 49% to 24%. However, this trend has had negative socioeconomic consequences. Contrary to the expectation that lower corporate taxes would stimulate spending and investment, research from UNCTAD and others indicates that productive investment has not increased despite these tax reductions.^{3 4 5}

Lower CIT rates have not led to productive investment.

Below: Figure 1: Statutory CIT rate.



Decreases in CIT statutory rates are challenging to reverse, as an asymmetric relationship exists between the effect of CIT rate and wages and prices. Decreases to the CIT rate rarely lead to increases in wages or decreases in prices, while increases in the CIT rate are often associated with a decrease in wages or increase in prices. This occurs because, when capital experiences an increase in rate of return due to lower CIT, this benefit is not shared with workers or consumers. However, the additional cost of a higher CIT rate often falls on workers or consumers to preserve the existing rate of return on capital. This means that any decreases in the CIT rate should be fiercely challenged, while increases in the CIT rate should be met with caution.

Below: Table 1: CIT Collections as % of Total Tax Revenue and GDP (R million) ^{6,7}

Year	Corporate income tax	Total Tax Revenue	% of Total Tax Revenue	GDP	% of GDP
1999/00	20 972	201 266	10.40%	952 614	2.20%
2000/01	29 492	220 119	13.40%	1 087 628	2.71%
2001/02	42 354	252 295	16.80%	1 204 512	3.52%
2002/03	55 745	281 939	19.80%	1 400 935	3.98%
2003/04	60 881	302 443	20.10%	1 524 757	3.99%
2004/05	70 782	354 979	19.90%	1 691 286	4.19%
2005/06	86 161	417 334	20.60%	1 885 724	4.57%
2006/07	118 999	495 549	24.00%	2 135 550	5.57%
2007/08	140 120	572 815	24.50%	2 409 261	5.82%
2008/09	165 539	625 100	26.50%	2 658 156	6.23%
2009/10	134 883	598 705	22.50%	2 843 029	4.74%
2010/11	132 902	674 183	19.70%	3 123 336	4.26%
2011/12	151 627	742 650	20.40%	3 391 162	4.47%
2012/13	159 259	813 826	19.60%	3 633 648	4.38%
2013/14	177 460	900 015	19.70%	3 945 369	4.50%
2014/15	184 925	986 295	18.70%	4 200 741	4.40%
2015/16	191 152	1 069 983	17.90%	4 498 913	4.25%
2016/17	204 432	1 144 081	17.90%	4 831 200	4.23%
2017/18	217 412	1 216 464	17.90%	5 138 407	4.23%
2018/19	212 046	1 287 690	16.50%	5 425 437	3.91%
2019/20	211 522	1 355 766	15.60%	5 709 241	3.70%
2020/21	202 123	1 249 711	16.20%	5 616 352	3.60%
2021/22	320 447	1 563 754	20.50%	6 325 590	5.07%
2022/23	344 660	1 686 697	20.40%	6 763 457	5.10%
2023/24	301 367	1 731 353	17.40%	7 094 783	4.25%

The difference between the current CIT rate of 27% and the top PIT rate of 45% creates an arbitrage opportunity. High net-worth individuals often exploit this.

The difference between the current CIT rate of 27% and the top PIT rate of 45% creates an arbitrage opportunity. High net-worth individuals often exploit this by restructuring their income streams so that a company, rather than the individual, receives the income⁸. High-income earners are more likely to have access to the information, networks and professional services needed to exploit this arbitrage opportunity. Such practices disproportionately benefit white men, as,

given South Africa's history, white men constitute a majority of the taxpayers facing effective PIT rates above 27%. According to Stats SA's 2022/23 income and expenditure survey, male-headed households had an average income 51% higher than female-headed households, while white households had an average income 370% higher than black households.⁹ This arbitrage opportunity also constrains the scope for higher marginal PIT rates.¹⁰

While the current CIT rate is 27%, the Davis Tax Committee reported that the average effective tax rate (the ratio of a company's tax liability to its net pre-tax accounting profit) varies enormously by sector.¹¹

Table 1 shows the CIT as a percentage of total tax revenue and of GDP since 1999.

CIT as a percentage of total tax revenue was at its lowest in 1999 (10%), and at its highest in 2008 (26.5%). Since 2008 it has declined drastically to where it currently stands (17%). Similarly, CIT as a percentage of GDP peaked in 2008 (6.2%) and has since decreased by 2 percentage points (4.3%). The decrease in CIT revenue as a percentage of total tax revenue and GDP over the last 15 years, and the relatively lower contribution compared to similar economies, may indicate that there is potentially scope for CIT to raise more revenue in South Africa.

Table 1 also highlights the volatility of CIT collections and the importance of the extractives sector therein. While the mining sector only constitutes around 6% of GDP, it makes a very significant contribution to corporate tax revenue in years of booming commodity prices, such as 2008 and 2021. In Q2 of 2021, mining accounted for 50% of CIT collections.¹² However, lacking any windfall taxes, the South African tax system does not properly account for the cyclical nature of extractives sector revenues. On the contrary, increased CIT revenue has been used to allow for the reduction of effective personal income tax rates during the 2000s and in 2021/2022, as discussed in Chapter 2. With no counter-cyclical measures, when commodity prices fall, the consequent loss of CIT has to be accounted for through expenditure cuts elsewhere in the budget. This issue is likely to be worsened if additional incentives are introduced, as discussed later in this chapter.

When compared to neighbouring countries and comparable economies, South Africa's statutory CIT rate is low. Table 2 shows that Brazil, Kenya, Malawi, Mexico, Mozambique,

Nigeria and Uganda all have a higher statutory tax rate than South Africa, reflecting the country's enthusiasm to attract investment both from outside the continent and within Africa.

Below: Table 2: CIT rate of countries comparable to South Africa.¹³

Territory	Headline CIT rate (%)
Botswana	22
Brazil	34
Egypt	22.5
Kenya	30
Malawi	30
Mexico	30
Mozambique	32 (10% agricultural & transportation)
Nigeria	30% large; 20% medium; 0% small
South Africa	27
Uganda	30
OECD Inclusive Framework Avg	21.1

While South Africa does not function as a tax haven on the global level, it may play a similar role regionally, given relatively low CIT rates.¹⁴ This is discussed further in Chapter 4.

South Africa has a separate income tax schedule for Small Business Corporations (SBC). Firms with less than 5 employees and a turnover of less than R20 million are classified as SBCs by SARS. Table 3 outlines the tax rates for SBCs for the 2025 tax year.

Below: Table 3: Income tax rates for Small Business Corporations 2025.

Taxable income (R)	Rate of tax (R)
1–95 750	0% of taxable income
95 751–365 000	7% of taxable income above 95 750
365 001–550 000	18 848 + 21% of taxable income above 365 000
550 001 and above	57 698 + 27% of the amount above 550 000

Besides SBCs, there are no specific tax benefits based on ownership by women or vulnerable groups, although Broad-Based Black Economic Empowerment (BBBEE) certification, while not directly lowering CIT rates, can provide indirect tax advantages. Companies can deduct certain BBBEE-related expenditures from their taxable income, such as costs for skills development for black employees, supplier development with black-owned businesses, and enterprise development projects in Black communities. These deductions lower the taxable income, potentially reducing the company's CIT burden.

While interest is generally deductible if incurred in the production of income, the following limitations apply.¹⁵

- **Transfer pricing rules:** Requires interest to be charged at arm's length, meaning at the same price that would be charged between unrelated parties.
- **Fixed-ratio rule:** Limits interest deductions for interest paid to connected persons, if the interest is not taxed in the recipient's hands.
- **Statutory ceiling:** Sets a ceiling on deductible interest incurred by companies in specific debt categories related to corporate reorganisations and acquisitions.
- **Recharacterisation as non-deductible distributions:** Allows Interest on hybrid debt instruments or hybrid interest to be treated as a dividend and thus be non-deductible.

CORPORATE TAXPAYERS

Companies are registered for corporate tax automatically when they register with the Companies and Intellectual Properties Commission - a legal requirement for all companies. Table 4 shows the number of companies registered for CIT since 2019. Table 4 shows a steady increase in the number of registered companies and VAT vendors over the past five years. However, the number of corporations registered decreased in 2023, and the rate of growth of VAT registration slowed considerably after 2022.

It is likely that the increased number of company registrations is related to the Covid-19 pandemic. This created a need to

establish greater numbers of companies to provide PPE as well as health and sanitation services, which previously had a limited demand. There was also a general economic bounce-back from Covid-19 in 2022. The general decline since 2022/23 is likely due to the subsequent economic downturn, as GDP growth has hovered around less than a percentage point on either side of 0% every quarter since 2022.

	Corporations	VAT Vendors
31 March 2019	2,020,759	802,957
31 March 2020	2,548,975	831,821
31 March 2021	3,112,509	880,553
31 March 2022	3,532,646	941,406
31 March 2023	3,926,252	953,665
31 March 2024	3,664,147	959,000

Above: Table 4: Number of registered corporate taxpayers over time. Source: SARS tax statistics 2024, SARS Annual Report, 2023-2024.

HOW DOES THE TREND IN COMPANY AND INDIVIDUAL TAXPAYER REGISTRATION COMPARE TO COLLECTED REVENUE?

CIT collections have increased by 42.5% from 2019/20 to 2023/24 in nominal terms. In the same period, the number of companies registered for tax has increased by 81.33%. This means that actual CIT revenue has been growing at roughly half the rate of new registrations. Possible explanations include the impact of the pandemic on the profitability of small businesses, and the high level of market concentration in sectors of the South African economy such as retail trade, where a few well-established firms hold the majority of income. According to the Competition Commission, 69.5% of the 144 sectors of the economy are considered "highly concentrated".¹⁶ Of the 17 corporate income tax brackets, **51% of all tax revenue comes from the 324 firms in the top bracket**, while 49% comes from the remaining 916 101.¹⁷

The total income of businesses covered by the Annual Financial Statistics survey increased by 42.11% between 2019 and 2023. This publication does not report exactly the same period as SARS revenue statistics, with the former reporting for a calendar year and the latter a financial year. Nonetheless, the close alignment between the increase in CIT collections and the increase in total income supports the argument that increased revenue collections are due to increased corporate revenue, and not due to an increase in efficiency of collections or decrease of evasion.

PIT collections have increased by 23.15% between 2019/20 and 2023/24 in nominal terms. In the same period, the number of registered taxpayers has increased by 22.02%. Interestingly, this shows that PIT collections much more closely track the number of registered taxpayers.

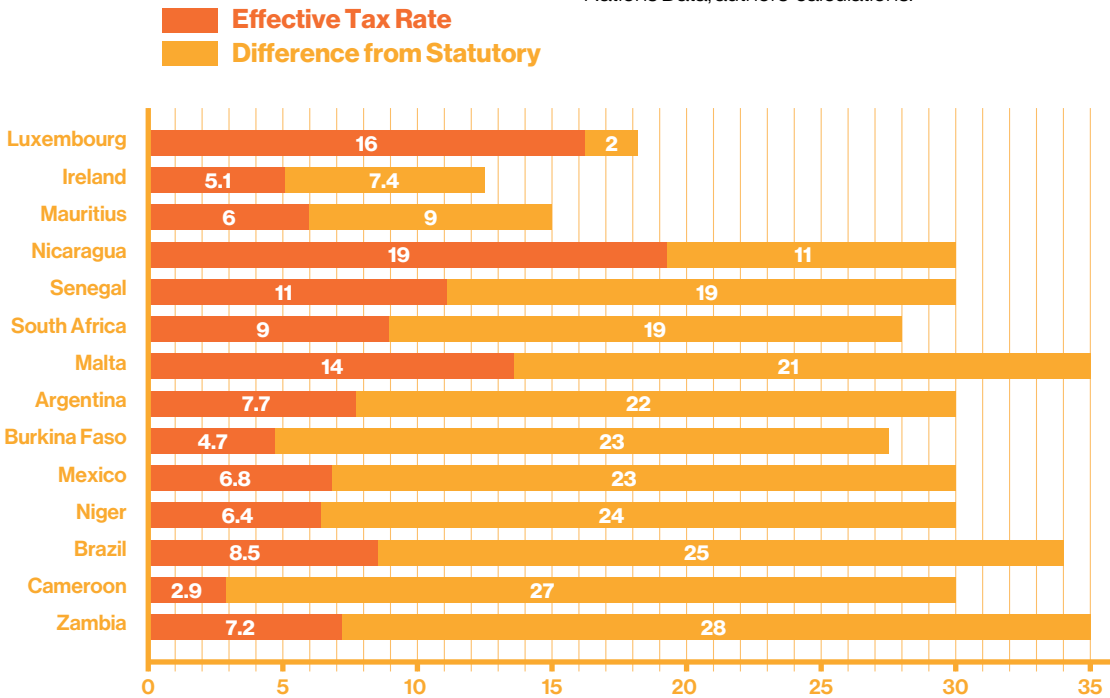
There is little official data collected on the informal economy. According to Trade & Industrial Policy Strategies (TIPS) data,¹⁸ the number of informal businesses reached 1.75 million by the end of 2022. This is less than half the number of registered formal businesses, at 3.66 million according to SARS data. There is no up-to-date information on the revenue, assets, or profitability of informal businesses available.

WHAT DO COMPANIES PAY IN REALITY? DETERMINING THE EFFECTIVE CORPORATE INCOME TAX RATE

The “race to the bottom” has played out in two spheres — lowering statutory rates and offering tax incentives that lower effective rates. This frequently results in significantly lower effective tax rates for multinational corporations.

So, while the statutory CIT rate is 27%, this is not what companies pay in reality. Tax incentives, deductions, and evasion or avoidance arrangements may reduce their effective (actual) CIT rate well below this amount. Among these incentives, tax holidays — temporary reductions or exemptions from corporate tax — are particularly prevalent in developing countries.

Below: Figure 2: Statutory and effective corporate tax rates 2019. Source: OECD Tax Revenue Data, United Nations Data, authors' calculations.¹⁹



Determining the effective CIT rate - what companies actually pay - helps to understand the extent to which the statutory CIT rate has been reduced by other measures, and therefore the extent of South Africa's participation in the race to the bottom.

Unfortunately, there is no easy way to determine this. The main difficulties lie in methodology and data limitations. There are multiple methodologies, each with its own trade-offs, limitations and benefits. A discussion of the different methodologies can be found in Appendix A, but it is important to note that any method should not simply compare the reported taxable income of corporations with the tax paid, as this will always approximately reflect the statutory rate. Without access to corporate tax returns, an estimation of effective tax rates has to use an appropriate "stand-in" for corporate incomes after basic business expenses are subtracted, but before other deductions and incentives are accounted for.

Using information from national accounts data, this report estimated the Effective Tax Rates (ETRs) of 60 countries from 2019. The results are summarised in Figure 2 below, where the orange plus the yellow represents the statutory CIT rate.

Figure 2 shows an average effective tax rate for this sample of around 8%. South Africa's ETR is between 8% and 9% (depending on the use of fiscal or calendar year for corporate tax collection data). However, such a comparison tells us little without taking into consideration the different statutory CIT rates of the 60 examined countries. Figure 2 also shows an average gap of 15 percentage points between the statutory rate and the ETR. South Africa's gap was somewhat bigger, at 18-19 percentage points. **This means that, while South African companies generally have an effective tax rate at or slightly above the global average, they have a greater-than-average divergence from the statutory rate. This could signal a greater-than-average level of deductions available to South African corporations.**

South Africa's ETR is estimated to be 9%, 18 percentage points below the statutory CIT rate. This gap is larger than the global average of 15 percentage points.

CORPORATE TAX INCENTIVES

South Africa has a range of CIT incentives, generally in the form of deductions and allowances rather than changes to the statutory CIT rate. There are no universal eligibility requirements for companies, with the majority of tax incentives designed for specific industries/sectors or activities, and individual incentives may therefore have their own set of eligibility requirements. While there is no central registry of companies that benefit from tax incentives, some tax incentives might be disclosed in annual reports of companies listed on the Johannesburg Stock Exchange (JSE). Table 5 (on the next page) outlines corporate tax incentives that are available.

In 2021, corporate tax incentives cost South Africa at least R23 billion in foregone revenue.

EXTRA INFO

WHAT IS ACCELERATED DEPRECIATION AND HOW DOES IT WORK?

Ordinarily, companies are allowed to deduct the depreciation of their capital assets from their taxable income. For example, a company may deduct 40% of the cost price of new machinery used in manufacturing from their taxable income in the first year of use, and 20% over the next three years. This represents the loss of value of an asset over its life, or the "consumption" of the asset. Many South African tax incentives take the form of an accelerated depreciation allowance, which allows for greater deductions over fewer years, or additional depreciation allowances which allow taxpayers to deduct more of the cost price of the asset than they would otherwise be able to do.

Name	Description/Scope	Applicable Relief	Tax Expenditure (2021/22)
Special Economic Zone (SEZ)	Qualifying companies carrying out certain business activities in an approved SEZ with customs-controlled area (not applicable to some including arms manufacturing and finance, insurance and real estate)	15% CIT rate, accelerated depreciation allowances on capital structures, and some customs, VAT, and excise exemptions. ⁴⁵	Not reported
Employment Tax Incentive	Eligible businesses receive a reduction on the payroll taxes they owe to SARS for employing youth earning below R6500. ⁴⁶	Up to maximum of R500 per employee per month deducted from Company's PAYE bill.	R6,167 mn ⁴⁷
Research and Development (R&D) Incentive	South African companies engaging in Research and Development activities	Deduction of 150% costs relating to R&D from taxable income. Accelerated depreciation deduction for capital equipment used for R&D.	R359 mn
Learnership Agreement Allowance	Companies paying for an employee's registered learnership agreement (training).	Deduction from taxable income of employer, dependent on the qualification achieved, from R20,000 upwards.	R384 mn
Urban Development Zone (UDZ)	Developers carrying out construction in designated UDZs (usually inner city).	Accelerated depreciation on costs of buildings within UDZ.	R194 mn
Energy-efficiency savings	Income tax deduction for electricity saved against a baseline over a year.	Income tax deduction of R0.95/kWh saved against baseline electricity use.	R216 mn
Participation Exemption	Qualifying resident company or group controlling 10% or more of a company declaring foreign dividend.	Full exemption from CIT and CGT on income from dividends and proceeds on sales of shares from foreign company.	R1,2187 mn (only dividends, no data on capital gains)
Small Business Corporation rate	Reduced CIT rate for small businesses earning up to R550 000 taxable income.	Progressive CIT up to R550,000; then headline CIT applies.	R3,627 mn
Automotive Production Development Programme	Three separate sets of incentives, comprising customs rebates and refunds for components used in automotive production. Categorised under customs and excise rather than CIT expenditure, but included here for reference as it is a very significant expenditure component.	Varied, see reference. ⁴⁸ Largely customs duty rebates.	R34,165 mn
Total			R23,152 mn (excluding automotive production development programme)

Above: Table 5: Corporate tax incentives in South Africa

As Table 5 shows, for 2021/22, tax expenditure on CIT incentives amounted to R23.15bn (1.48% of tax revenue, or 0.36% of GDP, excluding SEZ incentives). In addition to this, total customs and excise expenditure amounted to R43.67 bn, 17.5% of all tax revenue in 2021/22, and 4.3% of GDP.

According to a 2023 World Bank study, in a sample of 79 countries, average CIT expenditure on incentives was 0.63% of GDP.²⁰ South Africa's CIT expenditure is therefore below average, and we can conclude that South Africa does not have an egregious incentive regime. However, we must critically note that not all corporate expenditure is reported - expenditure on Special Economic Zones (SEZ) is one notable absence. There may also be specific areas where incentives are not justified or lead to excessive leakages. This will be discussed below.

It is important to note that the Department of Mineral and Petroleum Resources has repeatedly called for aggressively expanding the tax incentives available to the extractives sector. South Africa's Critical Minerals Strategy, released in mid-2025, includes a pillar on "financial instruments to support local beneficiation".²¹ This section proposes a mix of tax incentives, royalty adjustments or exemptions, and investment credits, as well as a "tiered taxation system" offering lower rates to projects related to critical minerals. This does not mean that these incentives are guaranteed - they will likely face some opposition from the National Treasury - but it is important to note emerging pressures in this direction.

HOW ARE CORPORATE TAX INCENTIVES DETERMINED?

Tax incentives are first proposed as part of the national budget process and then enacted through the yearly 'Tax Bills', such as the Tax Laws Amendment Bill. An ordinary public participation process applies, including opportunities for comment in front of parliamentary committees, and potentially prior workshops or other public engagements with the National Treasury and the Revenue Service. The Tax Bills are then contained in the amended Income Tax Act, after being signed into law. This limits the discretionary power of ministers or departments to issue tax incentives, which is a positive feature as it reduces the opportunities for corruption

and ensures a unified approach to tax incentives. However, the public participation process for legislation is not substantial. While the public is invited to submit written comments to legislation, public hearings around the Tax Bills tend to be dominated by industry lobbyists (particularly alcohol and tobacco, given that the bills invariably include determinations on 'sin taxes' for such products), leaving little room to discuss changes to incentives in these meetings.

In terms of international oversight, South Africa undertakes Article IV consultations²² with the IMF. The most recent Article IV consultation criticised South Africa's localisation incentives for "restricting the development of local and regional value chains",²³ which perhaps reflects the IMF's own bias against localisation and state intervention, but it did not highlight other issues with incentives. South Africa is also a signatory to the Southern African Development Community's (SADC's) 2002 Memorandum of Understanding on Cooperation in Taxation and Related Matters,²⁴ which is an annex to a legally binding SADC protocol on finance and investment.²⁵ However, this is an MoU and therefore only sets out general principles and intentions to cooperate, rather than concrete rules.

ARE SOUTH AFRICA'S CORPORATE TAX INCENTIVES TRANSPARENTLY JUSTIFIED?

Based on the figures in Table 5 above, South Africa does not have an excessive amount of corporate tax incentives. However, in the context of severely constrained revenue, incentives must be clearly justified and made transparent, particularly when these forfeit over R1 billion of revenue.

The Explanatory Memoranda to the Tax Bills include the purpose and reasoning behind tax incentives. The Tax Expenditure Statement, published as part of the National Treasury Budget Review, may also include some reasoning. But the analyses and studies that inform these are not made public by default. There are some which are, such as the World Bank review of the R&D Incentive, and the Reserve Bank-published discussion paper on the Employee Tax Incentive, but this is not done on a regular basis and is not mandated by law.

This is problematic, as some incentives seemingly rely on assumptions around business and investor behaviour which are not always tracked. For example, the participation exemption exempts South African companies from income tax from dividends or capital gains tax from the sale of shares in non-resident companies, where the local resident holds at least 10% equity in the foreign company. It forfeits in excess of R12.2bn each year, while benefiting primarily large corporations in the finance, insurance and real estate (FIRE) industries. Moreover, the threshold of ownership is quite low, at just 10%. The justification for this exemption is “to encourage resident companies to repatriate dividends and prevent economic double taxation”.²⁶ However, there is little published data on this incentive, and no publicly-available studies on its effectiveness in preventing offshoring, nor on the benefits of attracting these financial holding companies. In fact, the fact that benefits have gone largely to corporations in the FIRE industries should be seen as a red flag for this incentive, in the light of South Africa’s over-financialisation and premature deindustrialisation, as highlighted by a number of experts.²⁷

Critically, the published tax expenditure information does not include information on the tax forfeited as a result of the reduced CIT rate in SEZs. This data does not seem to be available anywhere, and we have been unsuccessful in trying to obtain it from Treasury. Research by Bachas et al²⁸ stated that South Africa has 1,525 firms in SEZs, of which 11 were in the top 1% of all profitable firms. The mean ETR of these firms was 5.3%, which is below the general South African average of 8%. Beyond forfeited tax revenue, SEZs have also had direct costs for the state. According to Makgetla (2021),²⁹ transfers from national treasury to SEZs rose from R600 mn in 2013 to R1.4 bn in 2019. While the annual reports of SEZ management companies make reference to increasing revenue streams and self-reliance, with the notable exception of the Coega SEZ they continue to be heavily reliant on transfers, as provinces themselves have contributed additional sums of up to R500 mn per year.³⁰ The benefits have been dubious - Makgetla writes that “despite these expenditures, both manufacturing value added and national formal employment had stagnated even before the pandemic downturn”.³¹

A review of business incentives by DNA Economics in 2018 determined that a “majority of the incentives reviewed were not constructed on the back of substantial evidence or research” and “in no cases was there confirmation of economic cost benefit or options analysis, or the use of regulatory or socio-economic impact assessment (RIA or SEIA) techniques”.³² While this study is now dated, some of the incentives reviewed are still in effect, and there is no evidence that new or renewed incentives have undergone a more substantial process. This is deeply problematic within the context of a constrained fiscus and stagnant economic growth.

Given the high cost of tax incentives, there is an urgent need for assessment of the socio-economic benefits they provide.

We should note that while there does not appear to be a mandatory cost-benefit justification in the design of incentives, the Treasury does generally undertake cost-benefit reviews of tax incentives as they approach their sunset dates, which sometimes includes opportunity for public inputs.³³ A table provided in response to a parliamentary question (RNW4440) summarised recent reviews of incentives, almost all of which took place a year before the sunset date.³⁴ This is encouraging, but it does not address concerns around the design and justification of incentives. Further, we would call for the transparent publication of reviews wherever possible to allow for public oversight over the review process.

While we commend the fact that the South African government has been very restrained in the granting of corporate tax incentives when compared to many other countries on the continent, we are not opposed to tax incentives in principle. However, tax incentives must be clearly justified in their design, and rationally evaluated on an ongoing basis; they must not lead to unjust developmental outcomes. Without a rational and consistent process for the development and evaluation of incentives, it will be very difficult to justify the opportunity costs of forgone tax revenue.

Tax incentives must be clearly justified in their design, and rationally evaluated on an ongoing basis; they must not lead to unjust developmental outcomes.

There is very little slack in South Africa's fiscus, as there are urgent demands for the use of revenues in many vital areas. Any use of domestic resources - including forgone revenue - must be up for debate in order to resolve the current crisis within a democratic framework.

CONCLUSIONS AND RECOMMENDATIONS

INCREASE CORPORATE TAX INCENTIVE TRANSPARENCY

South Africa publishes a tax expenditure report which has a commendable degree of detail and analysis. However, there are significant gaps in reporting. The lack of full reporting on the participation exemption provisions, such as revenue forgone from CGT is problematic in light of the large amount of revenue forgone, and the dubious benefit of the provisions, given the critiques of South African corporate financialisation discussed above. The lack of estimates for revenue forgone from SEZs is deeply problematic in light of their underwhelming performance.

The lack of estimates for revenue forgone from SEZs is deeply problematic in light of their underwhelming performance.

There have been a number of indicators that the state intends to ramp up the use of SEZs and other incentives, including potentially novel incentives for the mining and mineral beneficiation industries in particular.³⁵ This has also featured in the recently revealed presidential growth plan.³⁶ However, there are a number of critical demands on the fiscus not only for developmental, but also for important social expenditures (see Chapter 6).

1. In this highly constrained environment, AIDC calls for a mandatory cost-benefit analysis and review of existing and future proposed corporate tax incentives. Ideally, these should be done on a somewhat regular basis (such as every 5 years), and the results published on a rolling basis in the annual tax expenditure report accompanying the National Budget Review.

AIDC calls for a mandatory cost-benefit analysis and review of existing and future proposed corporate tax incentives.

2. AIDC also calls for increased transparency on the beneficiaries of tax incentives. For example, the Washington State Department of Revenue requires all companies claiming specific tax benefits to file an Annual Tax Performance Report. These companies - and the incentives claimed - are published on a searchable database.³⁷ This increases transparency around the use of public funds to subsidise private enterprises, allowing for a more informed debate and enabling citizen oversight over the granting of incentives. This becomes an especially urgent reform should additional tax incentives be developed to encourage the mining and beneficiation of critical minerals.

AIDC calls for increased transparency on the beneficiaries of tax incentives.

RESHAPE THE TAXATION OF THE EXTRACTIVE SECTOR

South Africa's tax revenues are exposed to global economic cycles due to the importance of the export-driven extractives sector. These cycles may become more volatile due to increasing geopolitical instability worldwide, as well as the climate crisis.

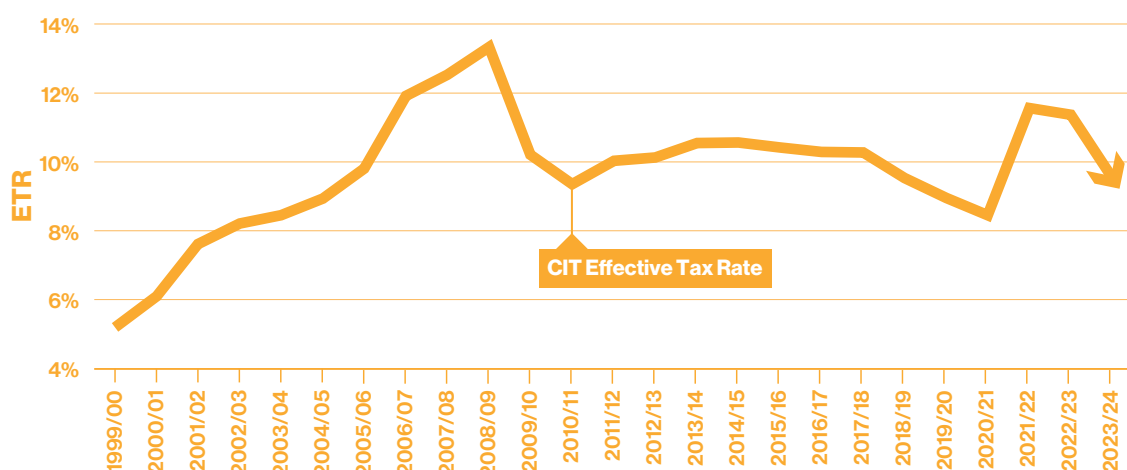
1. National Treasury should investigate the development of a windfall tax for the mining sector, capturing excess profits in times of surging commodity prices.
2. Treasury should investigate the establishment of a Sovereign Wealth Fund, funded partly through the ringfencing of mineral royalties, as well as a potential windfall tax, or other measures to capture cyclical surpluses. This could enable economic diversification and account for the eventual depletion of mineral resources, while making the country's tax system less susceptible to commodity price volatility.

APPENDIX A: METHODOLOGY FOR CALCULATING EFFECTIVE TAX RATES

One method is to simply compare companies' taxable income with their tax liability. This would produce accurate estimates for "what companies pay" in reality, but this would not take into account incentives which reduce taxable income, nor intentional underreporting of income or inflation of expenses - two of the principal tax evasion mechanisms. Another method would be to compare a company's tax liability with their turnover or similar metrics. However, this would produce effective tax rates which are not reflective of what companies pay in reality, as these would not take into account any legitimate expenses and deductions to income. It is mostly useful in comparing differences in results between sectors, or assessing the impact of deductions and incentives on the tax burden. Each method therefore comes with significant limitations.

The SARS annual Tax Statistics report publishes information on the average effective tax rates using the first method. The 2024 publication reports an average CIT tax rate of 27.3%. There is less than a percentage point variance from this average between the taxable income "bands", except for those with taxable incomes of less than R1 mn per annum (accounting for a very small minority of firms, and subject to small business rates, varying from 7% - 27% depending on total income). However, this tells us little - at most it indicates that corporate tax credits (which reduce overall taxes owed after taxable income has been determined) do not have a significant impact on the effective rate. However, it does not tell us much about other tax deductions or incentives which reduce taxable income, nor about tax evasion.

Another approach, using a variation on the second method, is to determine the effective tax rate by comparing gross operating surplus, found in the national accounts, with CIT collections in that year. SARS has used



Above: Figure 3: CIT Effective Tax Rate South Africa 1999 to 2024. Source: SARS Tax Statistics, StatsSA GDP Data (adjusted to fiscal year), authors' calculations.

this approach in determining the effective CIT rate, and we have replicated their methodology in this report. It is important to note that this effective tax rate looks at corporate income less the cost of production, payroll, and taxes and rebates on production (i.e customs duties on imported inputs) across the entire economy - it does not use micro-data. It is also an imperfect proxy for taxable income, as it excludes certain types of income such as financing.³⁸

Given the limitations of this approach, we found it important to establish a basis of comparison by calculating the ETRs of other countries, using this report. UN National Accounts data was used to obtain the gross operating surplus for a sample of 60 countries for 2019 (the number of countries with available data shrinks considerably after 2019).³⁹ Countries with Gross Operating Surplus (GOS) data which includes gross mixed income were excluded, as this includes dividend payments which are not part of taxable income. Estimates of total CIT collections were obtained from the OECD Corporate Tax Statistics dataset. For each country, the income tax collections were divided by the gross operating surplus in order to produce a rough effective tax rate.

South Africa's ETR was between 8% and 9% (depending on whether the fiscal or calendar year is used). However, such comparison tells us little without taking into consideration the different statutory CIT rates of the 60 examined countries. In the same sample, we calculated an average gap of 15 percentage points between the statutory rate and the ETR. South Africa's gap was somewhat bigger,

at 19 percentage points. The difference between the statutory CIT rate of 27% and the effective rate is due to the effect of tax incentives, credits, rebates, and capital depreciation.

In order to test for the impact of incomes not included in the GOS, we modified the SARS methodology to account for the effect of financing costs (interest payments) and rent on taxable income. The results are included in Figure 3 below, and align with the above methodology with only a very slight variation. This indicates that the exclusion of finance income does not affect the above results.

OTHER STUDIES AND ESTIMATES

A 2023 World Bank study uses micro-data from tax returns, finding that the effective tax rate of a sample group of countries with comparable statutory tax rates to South Africa was between 14.2% and 26.8%.⁴⁰

One UNU-WIDER study,⁴¹ using firm-level data, compared South African companies' gross profit, less the cost of goods sold, with their tax paid. This approach more effectively captures underreporting, but it produces ETRs that are not reflective of reality — in reality, companies are not taxed on gross profit, but on their taxable income after deductions. This is however still useful for comparing firms in different sectors and of different sizes, as seen in Table 6.

Decile turnover	Tax contribution (R billion)	Share of total tax take	ETR
1	0.44	0.1	13.5
2	1.02	0.3	9.5
3	1.41	0.4	7.7
4	2.13	0.6	6.1
5	2.98	0.8	5.0
6	4.30	1.1	5.0
7	6.55	1.7	4.3
8	11.24	3	4.4
9	22.97	6.1	5.0
10	327.60	86	6.8
Total	380.64	100	6.7

Above: Table 6: Effective Tax Rates by Firm Size. Source: Carreras, 2027.

The most significant finding from this research was that medium-sized companies face the lowest effective rates, while the largest and smallest companies have the highest rates. Due to data limitations, it was not possible to make further findings with confidence. One possible explanation for small firms is that they find it more difficult to take advantage of basic deductions and incentives due to a lack of capacity, or the funds necessary to hire tax experts, while the lower revenues involved make it less beneficial to undertake aggressive tax planning. A possible explanation for the largest firms is that they may find themselves under more intensive scrutiny and therefore may be less likely to undertake aggressive tax planning to try and lower their tax liability. It should be noted that another UNU-WIDER study⁴² discusses links between profit shifting, firm size, and ownership using data from CIT returns between 2010 and 2014. This study found that, while smaller firms are unlikely to shift profits, a few large firms shift substantial amounts.⁴³ If the ETR is higher at the top end, then it is unlikely that it is because of greater scrutiny of tax avoidance.

A 2015 study for the Davis Tax Committee assessed corporate taxpayers in 2011, finding that about a third of all assessed companies reported positive taxable income (27.6%), a further third reported assessed losses (33.3%), and the remaining third reported zero taxable income (39.1%).⁴⁴ When using the first and simpler method of comparing taxable income to tax paid, for the most part, companies above R1 mn in taxable income reported paying around the statutory CIT rate. However, taking into account incentives and deductions, the all-sector average fell to 18.2%, with mining being well below the average (13.7%). This also contradicts the 2017 UNU-WIDER study, which reported mining having the highest ETR of all sectors. This could well be due to methodological differences, as the 2017 UNU-WIDER study does not take into account deductions, and the mining sector possesses a number of incentives in the form of deductions.

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SOUTH AFRICA'S INTERNATIONAL TAX FRAMEWORK: ARE WE WINNING THE TAX WAR?

In 2024, governments around the world lost more than \$348bn to cross-border tax evasion, primarily perpetrated by multinational corporations.



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Where Chapter 3 discussed the extent to which South Africa has reduced effective tax rates for corporations domestically, this chapter will look at the extent to which South Africa has taken part in the international “race to the bottom”, through measures intended to attract multinational corporations. It will also look at the consequences and enablers of illicit financial flows and other forms of corporate tax evasion.

INTRODUCTION

In 2024, governments around the world lost more than \$348bn to cross-border tax evasion, primarily perpetrated by multinational corporations.¹ A significant enabling factor is the dominance of multinational groups in global trade, with trade taking place inside corporate groups (intra-group trades) accounting for at least one-third of all global trade.² This is often exploited in order to shift profits from high-tax countries to low-tax countries, taking advantage of differences in tax provisions between them.

At the same time, countries like South Africa are under pressure to attract foreign capital, and may take a number of measures to attract mobile multinational corporate groups and other forms of foreign direct investment. When South Africa lowered its CIT rate to 27% in 2022, the National Treasury mentioned that this would “reduce the incentive for firms to shift profits”,³ as it would make South Africa’s tax rate more competitive.

Chapter 3 discussed the extent to which South Africa has reduced effective tax rates for corporations domestically. Chapter 4 will look at the extent to which South Africa has taken part in the international “race to the bottom” through measures intended to attract multinational corporations. It will also look at the consequences and enablers of illicit financial flows and other forms of corporate tax evasion.

SOUTH AFRICA'S CROSS-BORDER CORPORATE TAX FRAMEWORK

A country's international tax framework consists of a number of different measures. These include:

- Withholding taxes on cross-border transactions with non-residents, such as on the payment of dividends or interest fees.
- Double tax agreements with other countries, which make changes to withholding taxes and lay out how taxing rights on corporate income are to be distributed.
- Anti-abuse measures, such as transfer pricing rules, meant to combat the use of international transactions to avoid taxes by shifting profits offshore.

The realities of globalisation and digitalisation mean that a robust corporate tax framework must address cross-border trade, particularly in relation to services and intangible assets (e.g. patents, trademarks, copyrights). This is crucial in order to ensure taxation rights to source countries and to discourage corporations from setting up profit-shifting schemes by charging their own subsidiaries large fees for the use of intangible assets, or for non-existent (or overpriced) management or marketing services provided.

WITHHOLDING TAXES ON PAYMENTS TO NON RESIDENTS:

Table 1 identifies the non-resident payments on which South Africa levies withholding taxes and the amount of those taxes.

Payment Type	Withholding Tax Rate
Royalties	15%
Dividends (shares listed on JSE)	20%
Interest	15%
Service Fees	0%

Table 1: Withholding taxes for non-residents in South Africa.

Notable here is the lack of a withholding tax on service fees. Service fees are a notorious means by which multinational corporations shift profits between jurisdictions. A number of South African case studies have exposed the ease with which multinational corporations set up subsidiaries in tax haven jurisdictions and invoice their related South African companies for management fees or sales commissions at extortionate rates. These fees become a business cost on the books of the South African companies, and are therefore deducted from their taxable income. For the haven-based subsidiaries, these fees become a profit with very few costs attached. From the perspective of the broader corporate group, shifting profit from a high-tax to a low-tax jurisdiction successfully decreases their overall tax liability.

Section 31 of the South African Income Tax Act requires the transfer price of specified international transactions between connected persons or associated enterprises to be based on the arm's length principle when determining taxable income, meaning that these transactions should not be structured in order to shift profits, but rather as if the connected entities were unrelated. However, in practice this can be difficult to administer and enforce. A withholding tax on service fees would reduce the incentive to shift profits in the first place.

South Africa has no withholding tax on service fees, even though international service transactions are a notorious means by which multinational corporations shift profits to tax havens.

South Africa introduced legislation for a withholding tax on service fees in 2013, citing base erosion and profit shifting concerns.

However, the government faced significant pressure to withdraw this tax. Business lobbyists cited concerns around investment attractiveness, raising the cost of doing business, and the administrative burden imposed. Under this pressure, the withholding tax was repealed in 2017 before it even took effect. Instead, it was assumed that income from services would be taxed as ordinary business profits of non-resident entities through a potential permanent establishment in the country.

The issue is that ordinarily, under the current regime of bilateral tax treaties, countries are generally only allowed to tax the part of a foreign multinational's corporate income which is attributable to a permanent establishment in their territory. For example, South Africa only has taxing rights over the part of Microsoft's income that is deemed to have been generated by Microsoft's physical branch/subsidiary in South Africa.

Xulu argues that since the withdrawal of the withholding tax on services:

"The current position in South Africa is that a non-resident will only be subject to corporate income tax on service fees from a South African source, if it has a permanent establishment in South Africa and the service fees are attributable to this permanent establishment."

In the age of digitalisation and multinational tech companies present across the world but with very little physical presence, mounting evidence points to the failure of current permanent establishment

rules in effectively taxing digital service providers. This means that a significant source of revenue is excluded from consideration.

There are both unilateral and multilateral options to address this. On the multilateral side, the OECD has developed the "Two Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy". This proposal consists of two multilateral tax measures, one which puts forward a global minimum tax of 15%, and the other a system for the taxation of multinationals without permanent establishment, particularly those rendering services. We will focus on the latter, which is called Pillar One.

Pillar One proposes to allocate a certain proportion of a multinational's profit to a market jurisdiction, based on the amount of revenue the multinational group derives from that jurisdiction. This is an important departure from the status quo, where jurisdictions are only able to tax the profit that is attributable to a permanent establishment of a Multinational Enterprise (MNE) in that jurisdiction, particularly when it comes to digital services. It also moves closer to a system of unitary taxation, as the profits of a multinational group as a whole are pooled and then distributed. Ultimately, unitary taxation would be one of the most effective measures to prevent profit shifting.

Pillar One is a highly problematic solution as it only applies to a very small percentage of multinationals.

However, Pillar One is a highly problematic solution. It only applies to a very small percentage of multinationals — those with annual revenue greater than EUR 20 bn and more than 20% profitability. Moreover, it would only take into consideration a specific percentage of their profits - 25% of the profit in excess of 10% of their revenue. Other critiques include the fact that it would be difficult to administer, deliver little revenue for developing countries, and, critically, require implementing countries to withdraw all unilateral digital service taxes. Finally, Pillar One is currently stuck in a political stalemate,

as the United States has withdrawn from the process. Without the US, implementation of Pillar One will be largely pointless.

Following decades of pressure from Global South countries, the United Nations General Assembly voted to begin developing a Framework Convention for International Tax Cooperation in 2023. In 2024, agreement was reached on the simultaneous development of two protocols alongside the text of the convention, due to be completed in 2027. The first protocol concerns the taxation of income from cross-border services, and will hopefully address the above issues in a more substantial way. However, there is still a long road ahead until such a protocol would take effect.

For these reasons, the reinstatement of a withholding tax on cross-border services is an important measure to consider. This is not an uncommon practice. Countries such as Zambia, India, China, Mozambique, and Kenya have a withholding tax on services. In terms of making its implementation compatible with international tax treaties, the United Nations Model Double Tax Convention (an alternative tax treaty framework to the dominant OECD model) includes a provision under Article 12A for the taxation of technical services. This provision gives a taxing right to the state in which the service was provided, and does not require the service provider to have a permanent establishment in the country in which it was provided. The UN Model Convention would therefore be an appropriate example to follow in the renegotiation of South Africa's tax treaties, to accommodate this measure.

PUTTING TAX HAVENS IN THE CROSSHAIRS

The term “tax haven” has taken on quite a range of meanings, most of them evoking images of private bankers and tropical islands. A critical feature is low tax rates, or generous exemptions and deductions, that result in low effective tax rates. However, havens offer more than this. According to James Henry, a tax haven ultimately refers to a jurisdiction with a particular “set of capabilities”, including not only the ability to minimise taxes paid, but also to provide asset management

services with anonymity and secrecy, and to discretely and remotely access wealth and security - both physical and financial.

Closely related to tax havens are so-called “conduit” jurisdictions. According to Garcia-Bernardo et al, while traditional tax havens are “sinks” that capture and retain capital, conduit countries exist to facilitate the transfer of capital.

While there is some overlap in terms of the capabilities offered, there are also minor but important differences. Conduit countries may have high corporate income tax rates, but must have an extensive and generous tax treaty network, and low taxes on the transfer of capital - for example, low or no withholding taxes for dividends, interest, or royalties.

South Africa does not have any specific measures targeting tax havens.

South Africa does not have any specific measures targeting tax havens. These are policy measures that need to be urgently considered. Research published by UNU-WIDER in 2018 showed that large firms owned by a parent company registered in a tax haven tend to report 80% less profits than comparable firms which are not owned by a haven-based parent. Perhaps one might want to argue that tropical air and sandy beaches makes for an overly relaxed management culture, but in reality the divergence in profitability is a very strong indication that these firms are shifting profits from South Africa to havens.

Large South African firms owned by a parent company registered in a tax haven are 80% less profitable than comparable companies not owned through a tax haven.

There is little economic justification for multinational corporations to be headquartered in traditional tax havens such as the British Virgin Islands, beyond tax and secrecy benefits which ought to be challenged. While the case of conduit countries may be more complex, ultimately we must ask why countries should

accept the channelling of investments through conduits as a legitimate business practice, particularly when this is done for a tax benefit or to obscure the ultimate beneficial owner. The existence of haven-based companies means that it is also difficult for authorities to investigate the economic substance of cross-border corporate transactions, as haven jurisdictions often put roadblocks to avoid cooperation (through exchange of information and others) with foreign tax authorities. Secrecy and security are considered core capabilities of the offshore haven network, as much a part of the appeal as tax benefits.

AIDC therefore argues for provisions specifically targeting tax havens. These can include a number of measures:

- Prevent certain expenses arising from transactions with haven-based companies from being deducted from the taxable income of South African companies.
- Alternatively, impose higher withholding tax rates for dividends, interest, royalties and services on haven-directed transactions.
- Exclude haven-based firms from eligibility for the participation exemption.
- Impose additional reporting requirements on transactions with haven-based firms.

There is international precedence for this. In 2021, Germany implemented the Tax Haven Defence Act. This outlined a list of jurisdictions identified as tax havens, based on the European Union's list of noncooperative jurisdictions for tax purposes. It included a range of measures, covering most of the above proposals.

In Ecuador, dividends paid to non-residents are subject to a higher withholding tax rate of 37% if the paying company has not fully disclosed its ownership structure, or if the recipient is based in a tax haven.

However, in reality withholding taxes on cross-border transactions are rarely applied at their statutory rate. Instead, South Africa's diverse network of double tax agreements (bilateral tax treaties) routinely lowers these rates to problematic levels. Any measures targeting tax havens or profit shifting more generally would also need to address South Africa's tax treaty network in order to be effective.

SOUTH AFRICA'S TAX TREATY NETWORK

Double tax agreements (DTAs), or bilateral tax treaties, are significant instruments of international taxation, particularly (but not solely) in relation to multinational companies. Tax treaties are agreements between two countries that determine which country has the right to tax specific international or cross-border transactions. Tax treaties do not create new taxes, but regulate taxation rights when more than one country has a legitimate claim to tax the same income.

Among other features, tax treaties restrict the capacity of countries to levy withholding taxes on dividends, interest, royalties and service fees. As a result, multinational companies are able to shift profits out of high-tax countries, paying very little or no tax. Thus, tax treaties result in countries surrendering important taxation rights and generating unexpected revenue losses over the years.

While tax treaties have been traditionally presented by wealthy countries and international organisations as key to attract investment, give legal certainty to investors and increase economic activity, bringing additional revenues for developing countries, many stakeholders are sceptical about this narrative. Global South countries, CSOs and academics have a critical perspective on the impact of such deals, insisting that tax treaties bring profit shifting, prevent some forms of taxation, reduce tax rates, and create loopholes for tax avoidance and opportunities for double non-taxation.

Bilateral tax treaties are a key mechanism depriving lower-income countries of tax revenue.

As Martin Hearson put it, bilateral tax treaties are “the key mechanism depriving lower-income countries of tax revenue”. Such treaties

“cover 82% of the world's foreign direct investment stocks, including 81% of the FDI

in lower-income countries. They set limits on when, and in some cases at what rate, signatories can tax cross-border economic activity, primarily imposing restrictions on the host countries of FDI”.

South Africa has an extensive DTA network consisting of 79 treaties. Many of South Africa’s tax treaties make significant reductions to the applicable rate of withholding taxes on critical cross-border transactions, including modifications to taxes on dividends, interest, and royalties. Like most countries, South Africa uses the OECD Model Tax Convention as a basis for its treaties. The OECD Model is considered to be friendly to capital-exporting countries, as its provisions often resolve double taxation by taking away taxing rights from capital-importing countries. According to a study by Feng, Joshi, and McGannon, South Africa has the highest number of restrictive tax treaties with OECD countries of any Global South country in their sample (see Figure 1).

South Africa has the highest number of restrictive tax treaties with OECD countries of any Global South country.

As mentioned, one of the main arguments for DTAs is that they lead to additional foreign investment because they relieve double taxation and provide investor certainty. Martin Hearson and Jalia Kangave, in their analysis of Uganda’s tax treaties, argue that this is not always true:

The difficulty with this view is that there are very few instances in which potential double taxation on investors in Uganda in the absence of these treaties can really be identified. All Uganda’s treaty partners take unilateral steps to relieve double taxation: the European countries all treat foreign-source dividends from direct investments as tax-exempt, as does South Africa; India, China and Mauritius provide a tax credit.

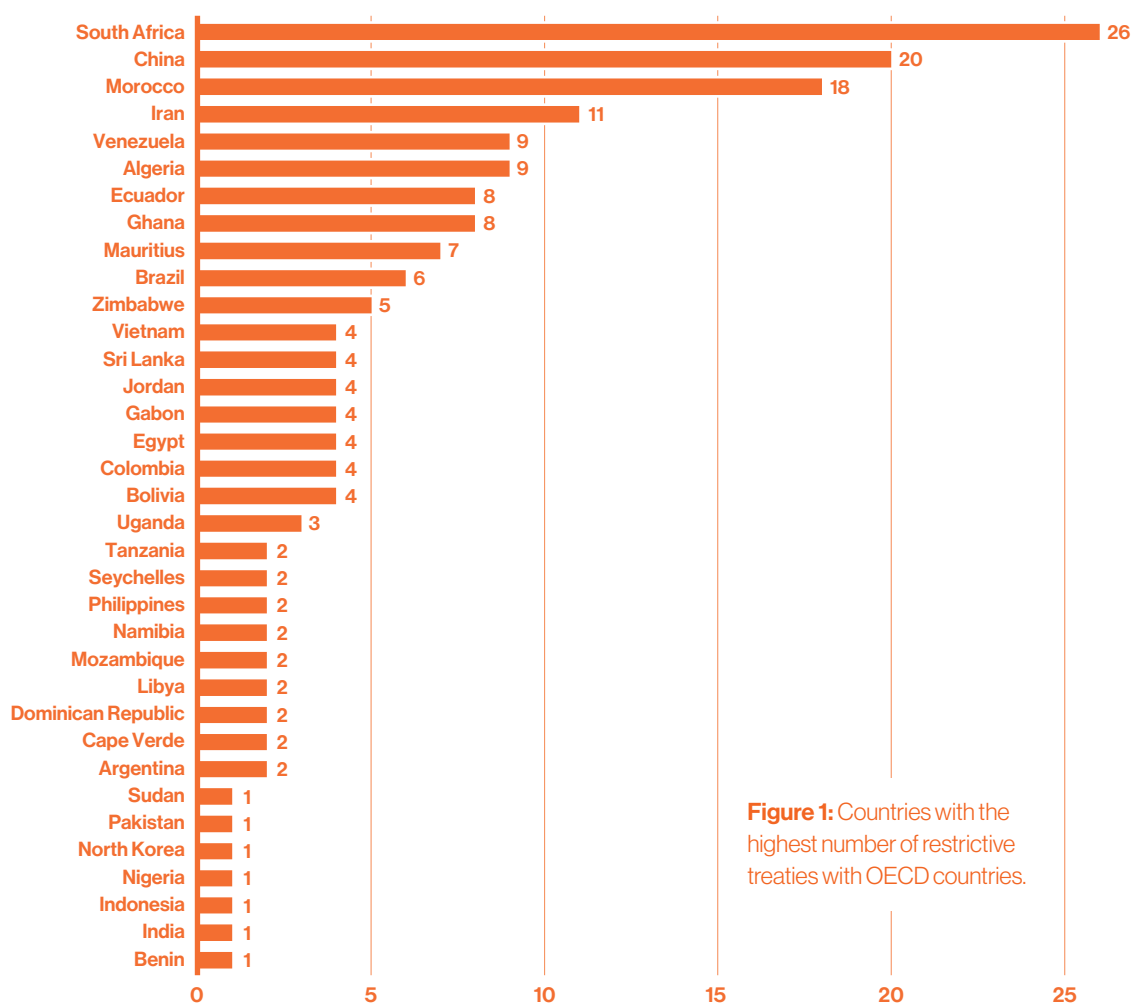


Figure 1: Countries with the highest number of restrictive treaties with OECD countries.

A similar argument applies to South Africa's tax treaties. Most countries have incorporated in their domestic framework unilateral measures to prevent double taxation, and cases of potential double taxation are considered rare.

In their review of the literature, Leduc and Michielesse argue that source countries are "unlikely to benefit from tax treaties by reducing source-country taxation" as research shows mixed results for developing countries, while investor surveys tend to rank treaties as being of low importance.

There are significant costs associated with these treaties. Naturally, there is the forgone tax revenue, which arises from provisions lowering the withholding tax rates on certain cross-border transactions. For many countries entering into treaties this loss has been unexpectedly high.

Another meaningful aspect of such treaties is the manner in which multinational corporations can abuse them – particularly through a practice known as "treaty-shopping", in which multinational corporations set up their corporate and investment structures to take advantage of the most favourable tax treaties, regardless of the actual economic substance. For example, a Canadian multinational intending on investing in South Africa may wish to first "shop around" for a country with the lowest possible treaty rates with South Africa, and the lowest domestic tax rates. It can then set up an intermediary company in that third country – often without any staff, physical office or real economic activity – and make its investment into South Africa from there instead of Canada. The use of this "conduit" thus allows it to avoid the tax provisions in place between South Africa and Canada and take advantage of treaty provisions which were not originally intended for Canadian residents. A country can still serve as a conduit country even if its domestic tax rates are high, so long as its **treaty rates** are comparably low. This is achieved by setting up profit-shifting structures which can "pass through" corporate income from the original, source country to the conduit, and then from the conduit to the country in which the ultimate parent or beneficial owner resides, without declaring any final income in the conduit itself.

According to Beer and Loeprick, treaty shopping is a major problem for African

countries; **countries with a tax treaty with an investment hub or conduit country experience more than three times as much revenue loss from profit shifting as countries without a DTA with an investment hub.**

We can consider two key risks of the tax treaty network for South Africa:

- Firstly, DTAs can reduce the withholding taxes on payments to entities based in tax havens, often for the kinds of transactions at high risk of abuse for the purposes of profit shifting, such as royalties and interest. This enables profit shifting from South Africa, causing a loss of revenue.
- Secondly, DTAs can allow South Africa to act as a conduit for profit shifting from other countries to tax havens. South Africa has a DTA with a high-tax source country featuring very low withholding tax rates, and another similar DTA with a tax haven. Corporations are able to set up a chain of transactions to shift profits from the original source country, through South Africa, to the final destination in the tax haven jurisdiction.

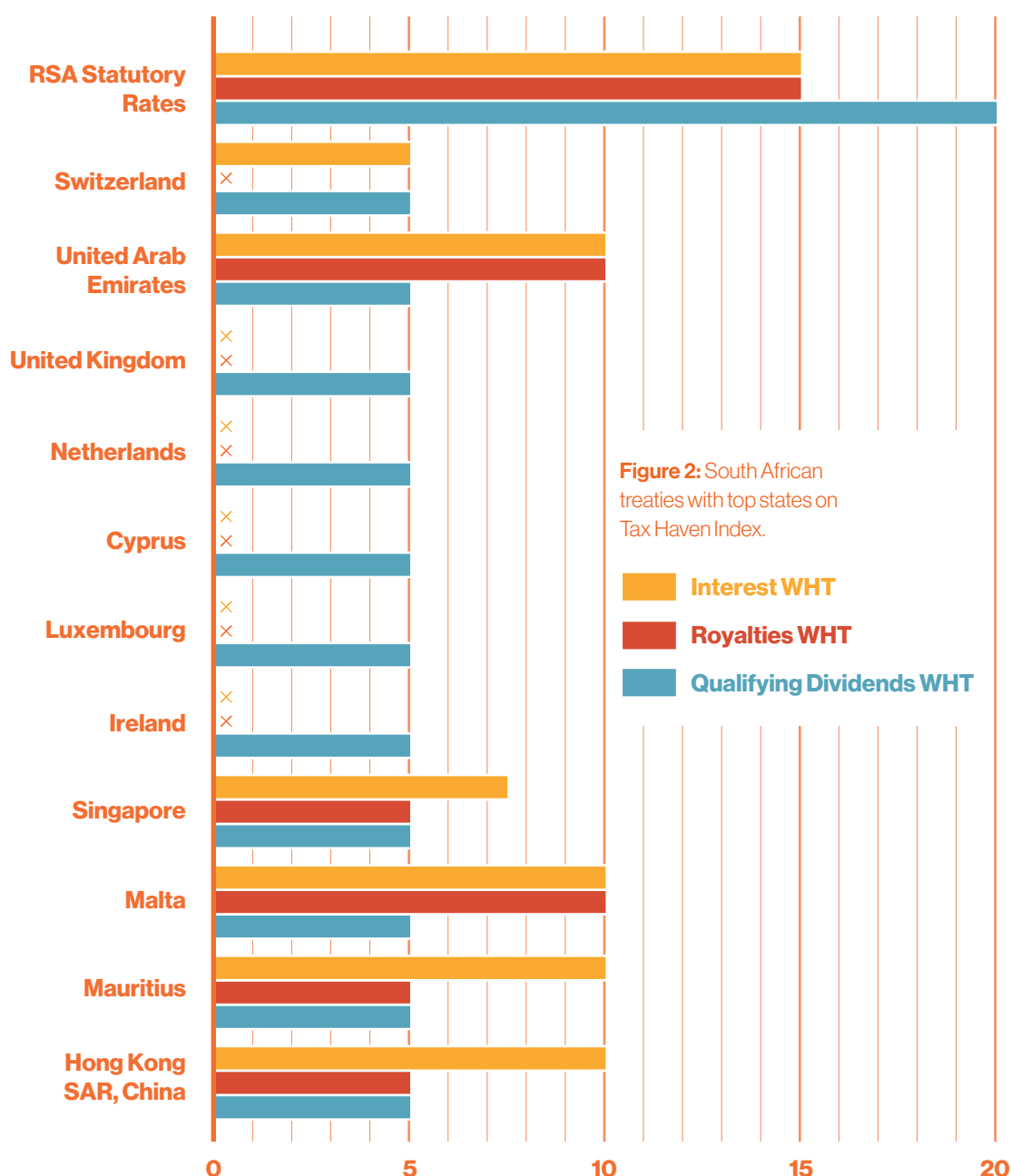
DTAS ENABLING PROFIT SHIFTING FROM SOUTH AFRICA

The Tax Justice Network's *Corporate Tax Haven Index* contains a list of jurisdictions ranked on the degree to which they facilitate and enable tax abuses through their laws and regulations, including not just their tax rates but also specific loopholes and lack of transparency.

We have used a dataset provided by the Tax Treaties Explorer team to flag treaties with the top havens on this list, and cross-referenced this with the treaty texts for validation.

Figure 2 presents the graph which summarises key provisions from South Africa's double tax agreements with the top 10 tax havens, according to their 'haven score' in the *Corporate Tax Haven Index*.

Of particular interest to us are treaty provisions regarding withholding taxes on interest, royalties, and dividends. For dividends, the rates below reflect those applicable to "qualifying dividends" – simply, dividends paid to a recipient that owns a certain percentage of the paying company above a threshold, usually around 10 - 15%, for the purpose of differentiating between



portfolio investments and controlled corporate structures. Where a bar is absent, no tax is withheld.

South Africa has a number of double tax agreements with the top tax havens identified on the Haven Index. We should note that, while the United Kingdom itself is not considered a tax haven, its overseas territories are considered the largest enablers of tax abuse, and the UK itself is one of the most significant conduit countries in the world.⁴ We have therefore included the UK on this list,

along with other top conduit countries, most of which are also considered tax havens.

What is particularly concerning is the amount of treaties which reduce withholding taxes on interest and royalties to zero, as these are easier to manipulate for purposes of profit shifting.

Countries like Ireland, Cyprus, Netherlands and Luxembourg are known offshore destinations, offering highly favourable tax rates, strong secrecy laws, and other provisions. When combined with these treaty rates, this enables profit shifting.

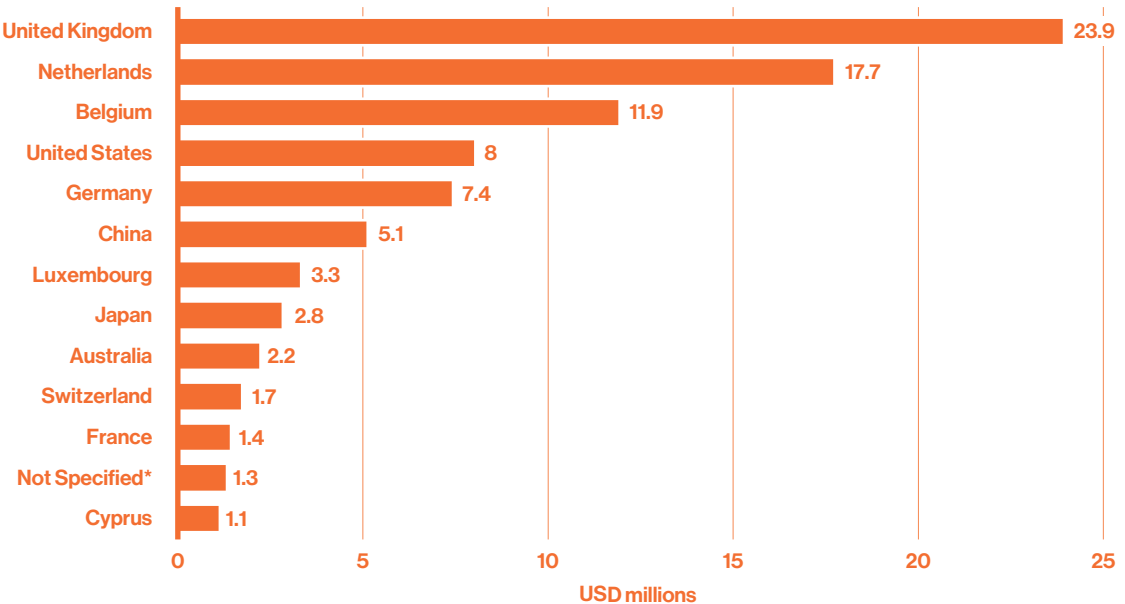
For example, Luxembourg has a number of special tax exemptions, including an exemption of income from intellectual property. A multinational corporation may decide to open a Luxembourg subsidiary and grant it ownership over the group's intellectual property assets. If the multinational has a subsidiary in South Africa, the Luxembourg company could charge the South African company a significant amount of money for the use of their technology, branding, and so on. Normally, South Africa would withhold 15% from the royalty payments as tax, but due to the tax treaty with Luxembourg, the payment would go effectively untaxed to Luxembourg – where it would again benefit from the IP income exemption.

We will estimate the forgone revenue by using a methodology from Janský and Šedivý,⁵ and reproduced by researchers from the Centre for Research on Multinational

Corporations (SOMO) and Centro Para Democracia E Desenvolvimento (CDD) in Mozambique.⁶ We can take foreign direct investment (FDI) data from the IMF's Direct Investment Positions by Counterpart Economy dataset (formerly called CDIS), which will show the stock of debt and equity direct investment into South Africa by country. Then, we determine the income due to each country from that investment. This is done by determining the share of each country's FDI stock in South Africa's total for the last available year. We then apply this percentage to South Africa's balance of payments data showing direct investment interest and dividend payments for that year, determining each country's share. We can then compare the difference, by country, between the tax revenue with statutory rates applied, and tax income with treaty rates applied. The results are summarised in Figure 3.

Below: Figure 3: FDI (Debt and Equity) into South Africa, share by country. *including Confidential.

South Africa's range of zero-tax treaties allows the country to be used as a conveyor belt for the profits of multinational companies, which ultimately end up in tax havens overseas.



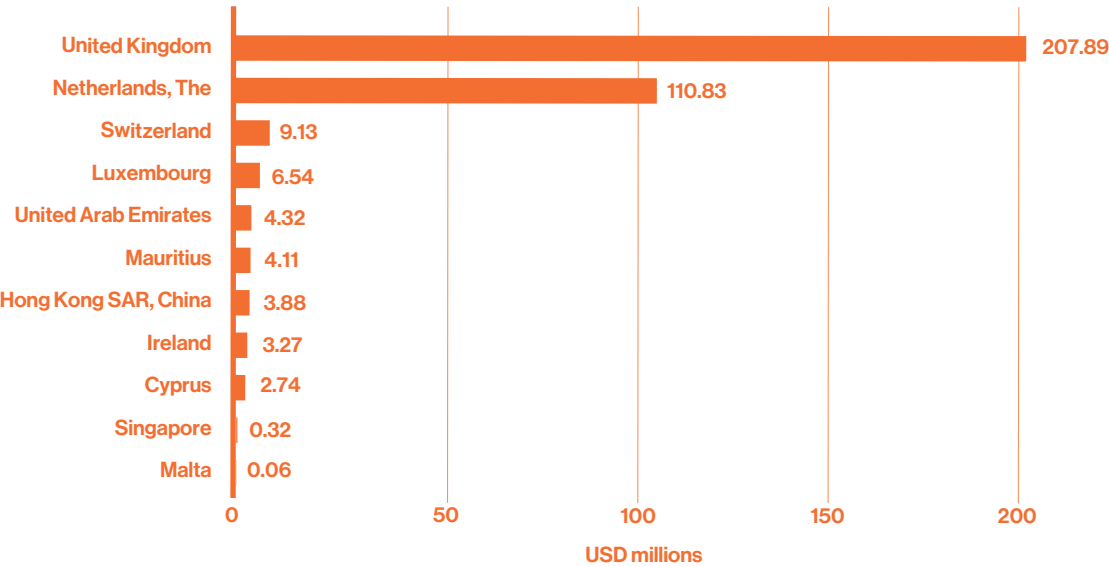
HOW MUCH DOES SOUTH AFRICA LOSE FROM TREATIES WITH TAX HAVENS AND CONDUITS?

South Africa’s total revenue lost as a result of tax treaties with tax havens and conduit countries is R6.81bn.

Figure 4 shows the revenue forfeit in 2023 on interest and dividends, from SA tax treaties, by country.

The overwhelming majority of forfeit revenue is due to tax treaties with the Netherlands and the United Kingdom, the two totalling \$318.7mn, or R5.84bn at December 2023 rates. This reflects their dominance as South Africa’s chief FDI partners. However, we think that it is relevant to question the need for such low treaty rates. As discussed above, research indicates that tax treaties are not major drivers of investment, and indeed both the United Kingdom and Netherlands have strong historical ties to South Africa dating back to its colonisation, which would be major drivers of continued economic links. Most importantly, however, the United Kingdom and the Netherlands are both considered key conduit countries and these treaty rates open up the likelihood of treaty shopping.

Below: Figure 4: Foregone tax on interest and dividend payments due to SA tax treaties in 2023, by country (method 1).



We note that we have omitted some of the major FDI partners from this graph, including Belgium, Germany, the United States, and China. This is because they have a historical investment relationship with South Africa, FDI inflows are largely traceable to productive investment unrelated to treaty shopping (such as the Ford automotive assembly plant), and finally because they are generally not considered to be tax havens or conduit countries (barring the United States). Of course, we may wish to still question whether these treaties are necessary at all, but our focus here is on particularly problematic “low hanging fruit”.

Beyond the big FDI partners, the other countries constitute a relatively small portion of forfeited revenue (\$34.39mn or R629.6mn at December 2023 rates). However, these countries are all well-known tax havens without the same economic, historical and political linkages to South Africa as the Netherlands or the United Kingdom. The case for a renegotiation of these treaties is thus far less ambiguous, and while \$34.39mn is not an astronomical sum, it is nonetheless still a significant amount of forfeited revenue in the context of austerity.

South Africa’s total revenue lost as a result of tax treaties with tax havens and conduit countries is \$353.11mn or R6.46bn. The potential damage of these treaties may go beyond the forfeited revenue as calculated here. These estimates only cover the losses for interest and dividends, and not royalties, services, or other payments. They also do not cover the potential for profit shifting enabled by these tax treaties.

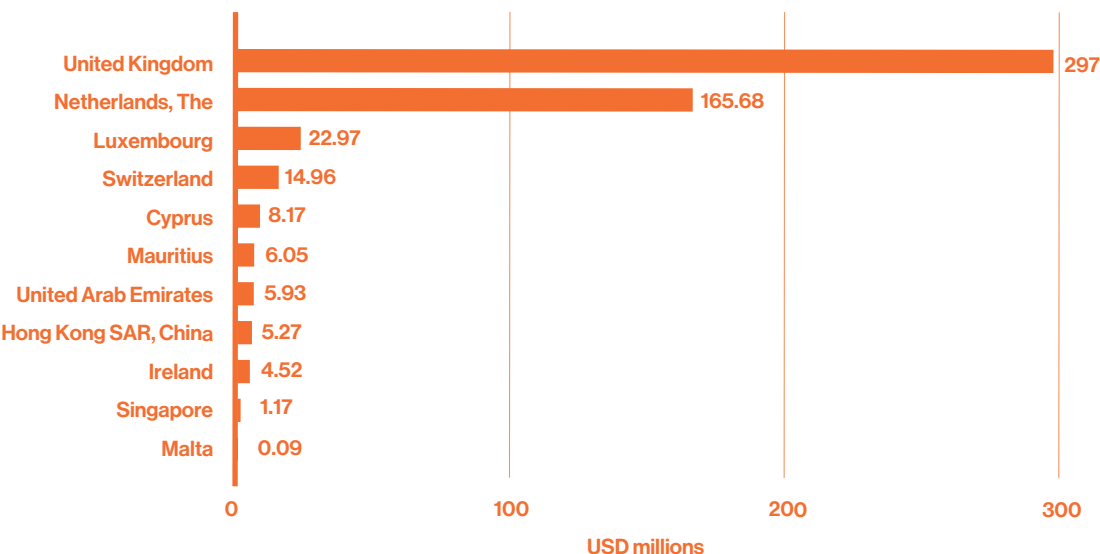
ALTERNATIVE METHOD

As the available data does not report the income from debt and equity FDI bilaterally, the methodology from Janský and Šedivý attempts to calculate this by assuming that each country's share in the total stock of FDI will reflect their share of income from the country total.⁷ However, Leduc and Michiels apply a simpler method, using a conservative 6% return on equity and 4% on debt for foreign direct investment as a flat assumption based on developing country data.⁸ Applying this method leads to the results in Figure 5.

This significantly increases the estimated revenue losses across the board, without changing the distribution. **Using this method, tax treaties with the United Kingdom and Netherlands account for \$462.7mn or R8.47bn in forgone revenue.** Minor FDI partners account for \$69.13mn or R1.27bn in forgone revenue. **The total loss is \$531.8mn, R9.74bn, a 34% increase from the first method.** This is equivalent to around 3.2% of CIT collections for 2023/24.⁹

Once again, it must be emphasised that, while this does not take into account behavioural changes that may result from treaty renegotiation, it is also a significant underestimate, as it only considers two forms of revenue affected by treaties, and does not take into account the additional losses due to profit shifting.

Below: Figure 5: Foregone tax on interest and dividend payments due to SA tax treaties in 2023, by country (method 2).



ANTI-ABUSE MEASURES IN SOUTH AFRICA'S TAX TREATIES

South African tax treaties are all based on the OECD model tax convention. South Africa is a member of the OECD Inclusive Framework and has ratified the Multilateral Instrument (MLI) which is intended to automatically modify tax treaties to implement the OECD's BEPS Action 6 minimum standards. However, in the latest OECD peer review, it was found that only 44/79 of South Africa's DTAs comply with the minimum standards. According to SARS, 50 jurisdictions have signed the MLI, so the number will increase once they have ratified it.¹⁰

Modern tax treaties generally include measures to prevent treaty abuse, such as the Limitation on benefits (LOB) provision, or a principal purpose test provision (PPT), which aim to exclude business relationships set up solely for the purpose of treaty shopping. Almost all of South Africa's tax treaties have a PPT provision, with only a few jurisdictions having an LOB test. PPTs can be effective and provide some minimum level of protection against treaty shopping, but they require a legal process for enforcement. In it a tax authority will conclude that the use of the treaty was one of the main reasons for an arrangement or transaction to trigger the application of the test. This can be a costly and time-consuming process and so AIDC concurs with those who call for developing countries to adopt a simplified LOB test in more tax treaties.¹¹

SOUTH AFRICA AS A CONDUIT COUNTRY

South Africa’s DTA network and corporate tax framework do not only leave it open to the loss of revenue, but it may also enable profit shifting from other states. While South Africa is not a tax haven, a number of its tax measures are intended to attract holding and headquarters companies, incentivising the use of South Africa as an investment hub. These have been explicit goals of tax policy since the Katz Commission in 1998.¹² Some of the provisions enabling this have been discussed above, and their avoidance potential will be described in a table below. However, it is worth noting South Africa’s headquarters tax regime first.

In 2010, South Africa established a headquarters tax regime in order to encourage greater FDI and attract holding companies. Under Section 9I of the Income Tax Act, companies could classify as headquarters companies if they met certain criteria, such as 80% of its assets being shares in foreign companies. Once a company qualified as a headquarters, they would be exempt from certain provisions, including:¹³

- Foreign subsidiaries of headquarters companies will not be treated as Controlled Foreign Companies (CFCs), meaning that the income of foreign subsidiaries will not be included in the income of the headquarters company for tax purposes.
- Exemptions from withholding taxes on interest and dividends.
- Exemption from transfer pricing rules on intellectual property/royalty arrangements, and from thin capitalisation provisions in cases where the headquarters company is the middle-man in a back-to-back loan between its foreign subsidiary and a third company. As transfer pricing rules can mitigate the use of debt and royalty transactions for profit shifting purposes, this is a particularly problematic provision.

Table 2 summarises concerning provisions, and how these might be used to funnel capital into or through South Africa at the expense of developing countries.

Below: Table 2: Measures which might open South Africa to a role as a tax conduit.

Measure	Mechanism	Avoidance Potential
Headquarter Tax Regime	Qualifying headquarters companies are exempt from a number of tax provisions, including dividend and interest withholding taxes, transfer pricing rules, and Controlled Foreign Company (CFC) provisions.	South African multinational corporations may abuse these provisions in order to shift profits from higher tax jurisdictions by means of high-interest loans and mispriced royalty fees. Foreign multinationals may decide to set up an intermediate holding company in South Africa, through which to shift profits from a third, high tax source country, establishing flow-through structures to a tax haven.
Participation Exemption	A resident company or group holding >10% of a foreign company can be exempt from paying income tax on dividends from that foreign company, or from CGT on the sale of its shares.	Investors in high-tax countries with favourable treaties may opt to establish holding companies in South Africa in order to collect dividends and capital gains, rather than establishing a domestic holding company. Favourable DTAs may fully exempt these dividends from withholding taxes at the source country, while the participation exemption would exempt the holding company from CIT. This reduces the income that the high-tax country would have collected if dividends were paid to a domestic holding company instead.
Double Tax Agreements	DTAs may reduce withholding taxes on cross-border payments such as dividends, interest, and royalties, down to 0%.	Investors in low-tax jurisdictions or tax havens with favourable treaties with South Africa may reroute investments through South African intermediary entities. This can open up the way for profit shifting, such as through high interest loans between the low-tax residence country and the South African holding company, and the payment of fictitious, mispriced management fees or royalties from the source country subsidiary to the South African holding company.

There is relatively little research into South Africa's role as a conduit for tax-related illicit financial flows. According to Tax Justice Network's 2024 State of Tax Justice report, which uses macro-level data, in combination with policy analysis, to establish a country's share of global tax abuse, South Africa is responsible for inflicting 1.3% of global tax abuse. This comes to \$4.62bn in 2024.¹⁴ This is compared to a loss of \$1.276bn in corporate tax revenue incurred.

South Africa is responsible for inflicting 1.3% of global tax abuse totalling \$4.62bn in 2024.

While South Africa is not a tax haven, this indicates that South Africa may play a potential role as an enabler or conduit for corporate tax abuse. This is applicable not only to foreign multinationals for whom South Africa might form part of avoidance structures, but also for South African multinationals themselves (meaning those companies originating from and based in South Africa). Following the liberalisation of exchange controls in the late 1990s, some of South Africa's largest corporations pursued a strategy of offshore investment and increasing financialisation. This has been criticised for delinking South Africa's financial economy and capital markets from its real economy.¹⁵ It has also been criticised for the number of instances in which South African multinationals

themselves have become embroiled in tax, wage, and other disputes in the continent.¹⁶ One example is retail group Shoprite, which was criticised for its low wages and aggressive expansion in Zambia, while enjoying a number of tax holidays.¹⁷ If combined with provisions above, this opens the possibility for the double non-taxation of South African multinational income.

TAX EVASION AND AVOIDANCE

Table 3 presents estimates of losses due to profit shifting and commercial illicit financial flows (IFFs based on trade data).

These estimates vary depending on the methodology used, but nearly all accounts identify large volumes of potential revenue losses from IFFs and base erosion and profit shifting (BEPS). Most older estimates used methodologies that highlighted disparities in trade data, providing estimates of losses due to trade misinvoicing. These would include tax avoidance and evasion, but also other forms of IFFs involving trade misinvoicing.

Each year, the South African economy loses an estimated R400 billion and R100 billion in tax revenue due to IFFs.

Below: Table 3: Estimates of losses due to illicit financial flows based on trade data.

Source	For Years	Estimate
<i>Capital Flight From SA: A Case Study</i> , Ndikumana, Naido, Aboobaker (2020)	1998 - 2017	\$146bn (net outflow)
<i>Illicit Financial Flows from Developing Countries: 2005-2014</i> , Global Financial Integrity Report (2017)	2006 - 2014	\$136.7bn (gross)
<i>Trade-Related Illicit Financial Flows in 135 Developing Countries: 2008-2017</i> , Global Financial Integrity (2020)	2017	\$22bn (gross)
<i>Illicit Financial Flows: Estimating trade mispricing and trade-based money laundering for five african countries</i> , Nicolaou-Manias, Wu (2016)	2015	\$67bn (gross)
Wu, Y and K. Nicolaou-Manias (2023). <i>Illicit Financial Flows for Africa: Measuring the Risks Associated with Trade Mis-invoicing and Trade Mispricing.</i> (Forthcoming publication). ²⁸	2017	Export under-invoicing: 7.5 - 10% of GDP Import under-invoicing: 2.5 - 5% of GDP Total \$40.4bn outward IFFs

Source	For Years	Estimate
<i>State of Tax Justice 2024</i> , Tax Justice Network, (2024)	2017 - 2021	\$1,558.2mn corporate tax revenue loss (yearly average)
<i>Tax-motivated transfer mispricing in South Africa: Direct evidence using transaction data</i> , Ludvig Wier, (2020).	2014	78mn EUR corporate tax revenue loss
<i>Global profit shifting, 1975–2019</i> , Ludvig Wier and Gabriel Zucman (2022).	2019	\$7.9bn total profits shifted.

Left: Table 4: estimates of losses due to profit shifting and commercial illicit financial flows using company-level data.

More modern studies have used company-level data to come up with estimates of losses through tax evasion and avoidance, including other means of profit shifting (see Table 4):

CAUSES AND ENABLERS OF IFFS/ BEPS

The causes and enablers of IFFs and BEPs are complex and multifaceted. This section will explore each in turn.

ECONOMIC STRUCTURE

While not a direct cause, South Africa's economic structure contributes to IFFs in a number of ways. Mining continues to play an import role in South Africa's economy and is largely export-based. In November 2024, 33% of South Africa's export basket comprised base metals and minerals, excluding precious stones.¹⁸ Globally, the extractives sector presents risks for IFFs due to its trade-based nature, as well as the dominance of multinational firms. Combined with this is the fact that South Africa's biggest economic sector is finance and related services. This highly developed financial sector is able to facilitate the movement of capital into and out of the country, opening the way for illicit outflows too.

MACROECONOMIC FRAMEWORK

In the post-apartheid period, South Africa has shifted to a neoliberal and "open" economic development strategy, with the removal of multiple controls on the cross-border movement of capital and profits. Some examples include:

- The removal of all exchange controls on current account transactions.
- Allowing non-residents to "introduce funds for any purpose into South Africa, to repatriate such funds and to transfer out of the country currency and capital gains earned on their investments without restriction."¹⁹
- Enabling resident companies to make direct investments in foreign subsidiaries through transfers or direct loans.
- Relaxing numerous smaller restrictions, including allowing banks to authorise various transfers without reference to the Reserve Bank.
- A restructuring and liberalisation of the financial sector and JSE to allow for "almost explosive increases in volumes."²⁰

This trend has continued to some extent. For example, in 2022 restrictions around investing in offshore trusts were lifted, allowing for investments of up to R10mn per annum in offshore trusts. Further, reporting requirements around the receipt of foreign-held assets and foreign income were relaxed.²¹

South Africa does still have some capital controls in place, despite the years of liberalisation outlined above. In terms of the Exchange Control Regulations, 1961, any transfer of assets to an offshore jurisdiction may only occur with the authorisation of the South African Reserve Bank. Individuals are allowed to make outward investments of up to R10mn per calendar year, while companies are allowed R1bn. For amounts over this, the company must obtain at least 10% of the foreign target entity's voting rights.

In terms of taxation, companies must register a subsidiary with a permanent establishment in South Africa when conducting business. However, this does not prevent profit shifting between the local subsidiary and the foreign parent or related subsidiary.

The liberalisation of capital controls makes it easier for IFFs to occur without oversight from the relevant authorities.

The liberalisation of capital controls makes it easier for IFFs to occur without oversight from the relevant authorities. Some transactions with relaxed reporting requirements may be manipulated in order to obtain tax benefits. Individual cases, such as that involving AMCU's allegations against Samancor Chrome, have shown that banks and financial institutions have authorised cross-border transactions involving hundreds of millions of rand, seemingly without oversight from the relevant authorities.²² Further, even in cases where there are due diligence requirements, the vastly increased volume of cross-border capital flows may make it more difficult for financial institutions to perform these duties consistently and effectively, while also making it more difficult for authorities to pick up illicit transactions.

UNDERFUNDING AND FRAGMENTATION

In 2023, South Africa was placed on the list of jurisdictions under increased monitoring ("graylisted") for financial crime, by the Financial Action Task Force. One of the deficiencies identified in the 2022 Mutual Evaluation Report on South Africa's measures to combat money laundering and terror financing was the high level of fragmentation between South Africa's various agencies responsible for combating financial crimes. For example, an investigation might require the cooperation of the Financial Intelligence Centre, the Reserve Bank's Prudential Authority, the National Prosecuting Authority, the South African Revenue Service, and the South African Police Service. These agencies do not have good exchange of information practices and it may take a long period of time to receive and transfer all of the elements required for a successful investigation and prosecution, given the fact that the relevant powers have been divided across these departments.

Coordinated state measures to combat IFFs have also been focused on the outright criminal/illegal element, such as proceeds from drug trafficking, smuggling, and related crimes, leaving commercial IFFs to be dealt

with through the South African Revenue Service. However, this has meant that the criminal focus has dominated the strategy for dealing with IFFs, leading to a lack of strategic focus on the commercial aspect, beyond the ordinary efforts by the Revenue Service.

A partial cause of these problems also lies in the de-funding and loss of capacity at key state institutions. This had an intentional element during the years of "state capture", in which the former president was accused of intentionally dismantling many of these bodies, allegedly to enable IFFs perpetrated by a close circle of allies. In recent years, this has also been a result of austerity measures implemented. For example, agencies such as SARS have continually stated that they are underfunded with respect to their mandate.

There has been a 12.5% shrinkage of funding to SARS in real terms over the last decade.

According to SARS' latest financial statements, it is reliant on allocations from the National Treasury for 95.38% of its funding. Although allocations from the Treasury have been growing by an average of 3.53% each year, when adjusted for inflation there has actually been a 12.5% shrinkage of funding to SARS in real terms over the last decade.²³ The 2023 adjustments in the National Budget put aside R1bn extra for SARS, but this was still insufficient. SARS' revenue would be around R1.9bn higher in 2025 if it had just kept up with inflation, excluding the additional costs of rebuilding from the state capture years. This will be discussed further in Chapter 5.

REGULATORY GAPS AND TRANSPARENCY

Finally, South Africa possesses a number of regulatory gaps with respect to IFFs. A significant one is the lack of adequate transparency. For example, beneficial ownership information was, until 2023, not collected anywhere except in the financial services sector, where authorised financial institutions were required to collect it from their clients. The General Laws Amendment Act aimed to correct some of these deficiencies, but it is also lacking in terms of transparency requirements. For example, there is no clear intention to introduce a centralised beneficial ownership registry, beyond the separate registers which will exist

for trusts, companies, NPOs, etc. There is also no intention to provide for centralised public access to this information.

On the one hand, this means that activists, investigative journalists and watchdogs, as well as trade unions, will not be able to benefit from this information. On the other hand, this also raises the risk that beneficial ownership information will remain with each reporting institution and contribute further to the problem of fragmentation. It has been pointed out that open public access - preferably through an electronic platform - helps state officials just as much as members of the public, as it cuts down on the need to make inter-departmental requests. For example, the National Prosecuting Authority may simply access the same online register the public does in order to obtain company information necessary for a case, rather than submitting a request to the Financial Intelligence Centre and waiting for a response.

There are a number of reports of significant pending taxes owed by large corporations related to large-scale profit shifting and aggressive tax planning cases. The number of these cases has increased recently, as the Revenue Service has notably stepped up its efforts to go after large corporations. These include:

- A R3.7bn claim against Christo Wiese, a South African billionaire, involving the creation of a tax structure to help Irish oil firm, Tullow, shift assets valued at billions of rand out of the country, avoiding paying taxes in the process.²⁴ This involved a ruling at the Supreme Court of Appeal.
- A case against Coronation Investments, involving the status of an Irish subsidiary, amounting to an R800mn claim.²⁵
- A R1.9bn claim against Adidas, in 2023.²⁶
- A R274mn claim against BP, in 2024.²⁷

These cases indicate positive results from the recapacitation of SARS - despite their revenue constraints - and should encourage Treasury to meet their funding requirements. However, these cases also reaffirm the prevalence of profit shifting, fraud, and evasion among large corporations and especially multinational corporations in South Africa. Given the above statistics, it is highly likely that these claims are only the tip of the iceberg.

CONCLUSIONS AND RECOMMENDATIONS

COMBAT TAX EVASION AND ILLICIT FINANCIAL FLOWS

There is scope to increase tax revenue, even without raising taxes or removing rebates and deductions. The analysis in this section shows that South Africa has a very significant ‘tax gap’ as a result of aggressive tax planning, tax fraud, base erosion and profit shifting, and other practices across the spectrum of legality. Key recommendations include:

1. **Provide additional funding to the South African Revenue Service** to address historic underfunding, as well as to specifically increase their ability to target large corporations and high net worth individuals. This may need to be coupled with a legal review process that proceeds from a domestic resource mobilisation perspective.
2. **Address the fragmentation across state departments** by expanding interagency efforts to combat IFFs to also cover commercial IFFs and BEPS, prioritising these for the sake of revenue mobilisation.
3. **Establish a methodology for monitoring and tracking IFFs**, and particularly commercial IFFs/BEPS, in line with UN SDG 16.4.1, providing a high-level target to evaluate the performance and effectiveness of interagency efforts.
4. Prioritise efforts to **transform the international corporate tax system** in forums like the United Nations Framework Convention for International Tax Cooperation, aligning domestic efforts with diplomatic ones in pushing for a transformation of the transfer pricing system.

5. Move towards **stronger transparency provisions for tax**, as well as for corporate financial and ownership information. Currently, the balance between transparency and privacy has remained too strongly on the privacy side, which is unjustifiable given South Africa’s inequality and need for additional revenues. This must include centralised public access to beneficial ownership information.

TAX HAVEN DEFENCE ACT

Implement a Tax Haven Defence Act. Take measures targeted specifically at jurisdictions known to be enablers of corporate tax abuse through their low tax rates, incentives, lack of transparency, or other capabilities. This should begin by establishing a domestic list of tax havens, which can be updated yearly as part of the annual tax law amendment bills, to be determined through a transparent review process.

A Tax Haven Defence Act will allow South Africa to deny haven-based firms access to certain deductions and incentives, without needing to make a blanket decision on tax relief offered to companies. This can include the following:

Exclude expenses arising from transactions with haven-based companies from deductions from the taxable income of South African companies;

Alternatively apply higher rates of withholding tax rates on dividends, interest, royalties and services to haven-directed transactions;

Exclude haven-based firms from the participation exemption;

Impose additional reporting requirements for transactions with haven-based firms.

THE DOUBLE TAX AGREEMENT NETWORK

1. Review the Double Tax Agreement Network. South Africa's DTA network includes a number of highly problematic tax treaties which modify statutory withholding tax rates down to 0% - 5%, including treaties with tax haven jurisdictions. We estimate that this results in forgone revenue of between R6.46bn and R9.74bn for the top 10 tax havens, for interest and dividend withholding taxes alone.
2. Review South Africa's tax treaty network, and the consequent renegotiation of particularly problematic treaties. At minimum, no tax treaty should fully exempt transactions from withholding taxes. Further, no treaty with a known conduit country or tax haven should reduce tax rates below the statutory rate. Ideally, these treaties should be renegotiated according to the UN Model.

AIDC calls for a review of South Africa's tax treaty network.

WITHDRAW FROM THE RACE TO THE BOTTOM - RECONSIDER THE INVESTMENT HUB STRATEGY

South Africa plays a dual role as a source and residence country, both capital importer and exporter. Since the end of Apartheid, there has been significant pressure to implement macroeconomic policy supportive of South Africa's role as a residence country or investment hub into Africa. This has manifested in the relaxation of capital controls, in South Africa's DTA network, and in tax provisions such as the participation exemption and the headquarters company tax regime.

This can lead to pressures contrary to the goal of protecting South Africa's tax bases and encouraging domestic investment, as these measures not only open the way for the erosion of the tax base but also encourage outward investment, rather than capital reinvestment in South Africa's productive economy. Importantly, these measures may also allow South Africa to play the role of a conduit country and enable tax abuses in other states.

We recommend the following:

1. Preferably, withdraw the headquarters company tax regime, or at a minimum retract the exemptions from transfer pricing and CFC rules, as this opens the door for base erosion and profit shifting
2. Withdraw the participation exemption provisions, given the potential for abuse and the fact that it has benefited primarily large corporations in the financial sector.
3. Review and reconsider the strategy of increasing South Africa's attractiveness as an investment hub, through the lens of whether this goal aligns with the key developmental goals of reducing unemployment, poverty and inequality. If such a goal is to be pursued, we argue that South Africa should not deploy tax incentives and legal exemptions to increase its attractiveness as an investment hub, as this will serve to attract capital inflows related to treaty shopping rather than long-term investment. Non-fiscal measures in support of onshoring, such as the provision of quality infrastructure and a skilled workforce, as well as the facilitation of local linkages, are preferable in attracting stable, long-term, productive foreign direct investment.

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GETTING OUR DUE: FIXING SARS TO FUND SERVICES

The South African Revenue Service (SARS) is responsible for collecting revenue through taxes to enable the government to deliver on its constitutional obligations. The capacity of SARS to competently fulfil its mandate, therefore, has a direct linkage to service delivery and the public sector, and to meeting policy commitments. In this chapter we look at the tax gap and how SARS can be better capacitated to fill it, thereby ensuring that the state uses the maximum available resources to meet people's needs.



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R600bn was lost in 2022 alone due to tax evasion, 60-65% of trusts are not registered for tax and there are at least 100 000 people with economic activity above R1mn per annum who are not registered for tax. How did we get here and what can be done? As South Africa faces increasing fiscal pressure, making sure everyone pays their due has never been more important.

INTRODUCTION

The South African Revenue Service (SARS) is responsible for collecting revenue through taxes to enable the government to deliver on its constitutional obligations. The capacity of SARS to competently fulfil its mandate, therefore, has a direct linkage to service delivery and the public sector, and to meeting policy commitments. In this chapter we look at the tax gap and how SARS can be better capacitated to fill it, thereby ensuring that the state uses the maximum available resources to meet people's needs.

R600bn was lost in 2022 alone due to tax evasion, 60-65% of trusts are not registered for tax and there are at least 100 000 people with economic activity above R1mn per annum who are not registered for tax. How did we get here and what can be done? As South Africa faces increasing fiscal pressure, making sure everyone pays their due has never been more important.

TAX GAP

As South Africa faces increasing fiscal pressure, making sure everyone pays their fair share is a significant concern for tax authorities. Establishing effective strategies to improve compliance necessitates accurate knowledge of what is lost to tax evasion.

The tax gap is the difference between the potential tax revenue if all individuals and companies fully adhered to tax laws and the actual revenue collected. The gap arises from taxpayers' failure to comply with existing tax laws and policies: tax evasion. In essence, it's a measure of non-compliance.

SARS estimates that R600bn was lost in 2022 alone due to tax evasion.

SARS estimates that R600bn was lost in 2022 alone due to tax evasion. This is up from R330bn in 2017, an 82% increase in what is lost annually to evasion. A detailed breakdown of the estimates is given in Table 1.



EXTRA INFO

SARS' mandate

- To collect all revenues due.
- To ensure optimal compliance with tax, customs and excise legislation.
- To provide a customs and excise service that facilitates legitimate trade and protects our economy and society.

Area	2017 (R bns)	2022 (R bns)
Customs	32.38	102.11
CIT	35.05	78.49
Excise (Tobacco)	6.61	18.13
VAT	135.05	198.09
PIT	120.78	201.95
Total	329.9	598.8

Above: Table 1: SARS estimate of the tax gap. ¹

SARS also reports undisputed debt outstanding of R422bn and disputed debt outstanding of R107bn.

Jansen et al.² estimated that the CIT tax gap in the non-financial corporate sector is between 29% and 45%, with an estimated R44-R93bn, equivalent to 2% of GDP, lost per annum. Given this is not the total gap for all sectors of the economy, we expect this to be a lower-bound estimate for the total CIT tax gap.

Table 2 summarises the sectors and industries found to be most non-compliant by SARS.

There are at least 100 000 people with economic activity above R1mn per annum who are not registered for tax, according to SARS commissioner Edward Kieswetter.³ To put this number into perspective, this means that 15% of all the people who have millionaire lifestyles and who should be registered for income tax in South Africa are illegally evading it. There are also a number of reports of significant pending taxes owed by large corporations and individuals, related to large-scale profit shifting and aggressive tax planning cases. As discussed in Chapter 4, the number of these cases has increased recently, as SARS has notably stepped up its efforts to go after large corporations. These include:

- An **R3.7bn** claim against Christo Wiese, a South African billionaire, involving the creation of a tax structure to help Irish oil firm Tullow shift assets valued at billions of rand out of the country, avoiding paying taxes in the process.⁴ This involved a ruling at the Supreme Court of Appeal.

Below: Table 2: Most non-compliant sectors and industrie.

Mining and Quarrying	Construction
Chrome	Building construction by general contractors.
Platinum	Home builders engaged in family housing.
Coal	Civil Engineering contractors
Crude petroleum	Other Contractors
Mining not specified	Paving
Transport Storage Communication	Food Drink Tobacco
Taxis	Dairy products (except processing of milk)
Road Haulage	Soft drinks
Bus Transport	Bakery products
Renting of trucks, cars, trailers, and containers	Slaughtering, preparing and preserving of meat
Miscellaneous transport and supporting services	Food products not elsewhere specified
Agriculture, Forestry, Fishing	Agencies and other services
Crop Farming	Cleaning (Buildings), exterminating, fumigation, disinfecting
Production of milk	Other agents and services
Livestock farming	Sanitation, garbage, and sewage disposal
Poultry farming	Market agents
Other farming	Indent and foreign agents

- A case against Coronation Investments involving the status of an Irish subsidiary, summing up to a **R800mn** claim.⁵
- A **R1.9bn** claim against Adidas, in 2023.⁶
- An **R274mn** claim against BP, in 2024.⁷

15% of all the people who have millionaire lifestyles and who should be registered for income tax in South Africa are illegally evading it.

Closing the tax gap poses a significant challenge to any tax authority, as monitoring new tax evasion and avoidance mechanisms, conducting comprehensive audits on tax payers, and pursuing non-complaint taxpayers is very resource intensive. In the next chapter we will discuss the historic underfunding of SARS, which presents a challenge to its ability to work towards closing the tax gap and assisting in easing the country’s fiscal strain.

UNDERFUNDING OF SARS

Table 3 summarises SARS’s funding over the last 10 years.

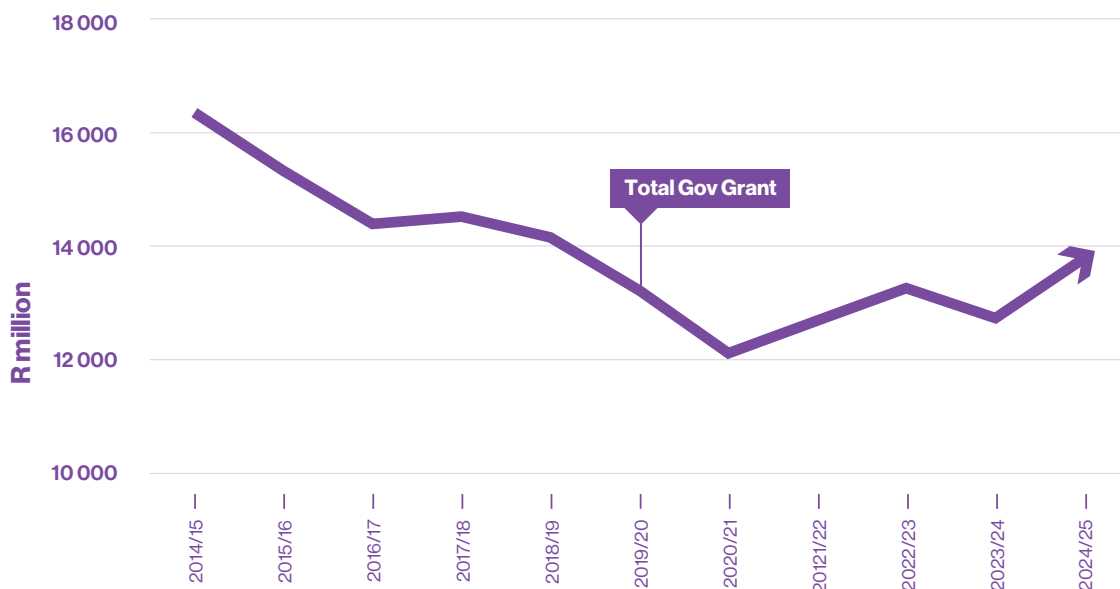
SARS is reliant on National Treasury for approximately 95% of its funding. In six of the ten years SARS experienced real decreases to their total government grant of between 3% and 8%. Despite some years of real increases to funding, SARS’ total grant in 2023/24 is less in real terms than it was in 2013/14. There has been a shrinkage of 16% over the decade between 2013/14 and 2023/24.

In their 2023/24 Annual Report, SARS noted that:

*“The funding position remains static and does not consider the inflationary effects. As a result, SARS’ grant allocation is lagging current expenditure growth without considering additional capacity or infrastructure and project requirements. Given the growing demand for additional revenue by government, **underfunding of SARS’ ICT budget will strain the country’s fiscal integrity.**”⁸*

Below: Table 3: SARS funding over time.

	Nominal Terms			2025 Real Terms		All figures in R million	
	CPI	Total Revenue	Total Gov Grant	Total Revenue	Total Gov Grant	% of Revenue from Gov	Year-on-Year Real Change
2013/14	68	9,882	9,534	16,947	16,351	96.48%	
2014/15	72	9,755	9,440	15,840	15,329	96.77%	-6.25%
2015/16	75	9,902	9,334	15,267	14,392	94.27%	-6.11%
2016/17	80	11,200	10,009	16,255	14,526	89.36%	0.93%
2017/18	84	10,773	10,218	14,925	14,157	94.85%	-2.54%
2018/19	88	10,721	9,984	14,192	13,218	93.13%	-6.63%
2019/20	91	10,071	9,529	12,806	12,117	94.62%	-8.32%
2020/21	94	11,303	10,272	13,960	12,687	90.88%	4.70%
2021/22	99	11,797	11,295	13,849	13,260	95.75%	4.51%
2022/23	106	12,373	11,636	13,539	12,732	94.04%	-3.98%
2023/24	112	13,924	13,281	14,459	13,791	95.38%	8.32%
2024/25	116						



Above: Figure 1: SARS funding over time.

While historically Treasury has shown reluctance to increase funding to SARS, the Commissioner stated that SARS’ previous receipt of an additional “R226m yielded an additional R14.5bn of revenue”. The ‘return on investment’ of over 7,000%, combined with historical underfunding, provides a clear justification for increased funding to capacitate the revenue service.

National Treasury has recently realised the enhanced benefit of adequately funding SARS, and has allocated an additional R4bn in the 2025/26 Budget, to be disbursed over the medium term to the revenue service. The bulk of the funding is being used to hire 1,700 additional debt collectors. In 2025, SARS had R400bn of undisputed debt owed to it by taxpayers.⁹ This is more than the government spends on health or basic education annually. There are also advances being made in using artificial intelligence to increase tax adherence.

While the efforts to recoup existing debt is low-hanging fruit, SARS should be further capacitated to capture high-income earners and companies who are not accurately and fully reflected in tax registries. Despite significant investment in hiring additional debt collectors, SARS has only been able to recoup approximately half of its target in the first quarter of 2025.¹⁰ The emphasis on debt

collection often means that low- to middle-income earners face greater scrutiny, rather than high net worth individuals who have easier access to sophisticated tax experts and who are therefore able to evade and avoid paying their fair share and get away with it.

The rise of cases involving large and ultra-wealthy taxpayers indicates positive results from the recapacitation of SARS - despite their revenue constraints - and should encourage Treasury to meet their funding requirements. However, these cases also reaffirm the prevalence of profit shifting, fraud, and evasion among large corporations, especially multinational corporations, and individuals in South Africa. Given the above statistics, it is highly likely that these claims are only the tip of the iceberg. While debt collection is important to ensure that existing taxpayers are contributing their fair share, the capacitation of SARS should also involve investigating how to expand and deepen the tax base for individuals and companies who have historically been hiding away information.

MEASURES TO IMPROVE COMPLIANCE OF THE ELITE: HIGH WEALTH INDIVIDUALS UNIT

The launch of the SARS High Wealth Individuals (HWI) Unit in 2021, defining high wealth as gross assets of R75 million or more, explicitly signals a shift in strategy for managing the tax affairs of the wealthiest citizens. The Unit's official mandate is to "afford these taxpayers a differentiated and dedicated end-to-end service," which includes "personalised services" and "professional partnerships." Articulating their theory of change as an aim to "improve voluntary compliance" by delivering an efficient service, SARS is leaning into a "soft-hand" or cooperative approach.¹¹

This approach is grounded in a practical reality: voluntary compliance is often the cheapest and most effective way to ensure proper tax declaration, particularly among HWIs. Given their access to multiple jurisdictions and sophisticated tax advisors, taxing HWIs is inherently more complex than taxing taxpayers with simpler income streams. A fully confrontational strategy could be more expensive and risk undermining the necessary level of trust and cooperation.

However, the Unit's current framing raises a critical question about strategic balance: can a primary focus on "service" and "partnerships" effectively secure comprehensive compliance from the country's wealthiest taxpayers, or does this "soft-hand" approach require a much more robust "hard-hand" complement to be truly effective?

EVALUATING THE STRATEGIC BALANCE: SERVICE PROVISION VS. RIGOROUS OVERSIGHT

The Unit's language, which includes references to a "differentiated" service and resolving "queries efficiently," positions the relationship with wealthy taxpayers more as a client-provider dynamic than a non-negotiable civic duty. While this cooperative tone may facilitate an initial level of engagement and voluntary disclosure, it begs the question: to what extent does this emphasis on convenience and comfort — what appears to be a two-tiered system of service when compared to the average taxpayer's experience — risk obscuring the need for rigorous, proactive enforcement?

The efficacy of a cooperative strategy hinges entirely on the strength of the accompanying oversight. If a "soft-hand" approach is to succeed, it must be paired with an exceptionally strong "hard-hand" mechanism. This includes:

1. **Proactive understanding** by SARS of the complex financial operations of HWIs.
2. **Well-resourced auditing** and continuous verification of all stated information.
3. **Aggressive confrontation and enforcement** against those caught concealing information or found to be non-compliant.
4. **Effective exchange of information** with other jurisdictions.

This leads to the core concern regarding resource allocation and mandate: **Is SARS currently diverting resources and expertise away from essential auditing and enforcement functions and into service provision, thereby weakening the necessary 'hard-hand' component?** Proactive and aggressive auditing is a well-established tool for long-term compliance, and a cooperative approach that lacks an ever-present, credible threat of detection and penalties risks becoming a mechanism for facilitation rather than enforcement.

THE OMISSION OF STRATEGIC DATA COLLECTION

Finally, the HWI Unit's mandate appears to overlook a crucial long-term national interest. Given the importance of addressing South Africa's extreme inequality, and following discussions around a potential wealth tax, the role of an HWI unit should arguably extend beyond current compliance.

Why does the HWI Unit's mandate not explicitly include the rigorous collection of comprehensive data on the assets of wealthy individuals, a necessary foundation for any future tax reform, such as a wealth tax?

By focusing solely on "improving voluntary compliance" within the existing framework, and "resolving queries," the Unit risks prioritising the short-term comfort of its members over the strategic national interest of building a more equitable and data-informed tax system. In essence, the central question is whether this specialised unit is sufficiently equipped to improve compliance of the wealthiest taxpayers within the current framework and gather the foundational information that could be used to reform that framework in the future.

RECOMMENDATIONS

Achieving the constitutional mandate of redistributive equality requires a potent and effective tax administration. The current capacity deficits and skewed enforcement priorities at SARS must therefore be strategically and immediately addressed. The following recommendations outline the necessary fiscal, structural, and mandated shifts required to restore SARS as the primary engine for social and economic equity.

1. **Capacitate SARS through additional funding** to ensure that the cumulative impact of historical budget cuts is reversed, and to ensure that allocations from National Treasury are at least keeping up with inflation. Additional resources directed to SARS cannot go to low-hanging fruit alone, but also need to be directed to units whose work allows for a deepening and broadening of the tax base. Redistributive equality is a foundational value in the South African Constitution — the tax system is an important pillar in realising this outcome and SARS' capacity forms part of this bedrock.
2. Continue the initiative by SARS to collect outstanding debt, but **emphasis should also be placed on high-income individuals and companies** who are not paying their fair share and who are unknown to SARS. Examples include industries operating largely on a cash basis, while generating millions a year. Additional SARS funding should go towards significantly more audits, especially specialised comprehensive audits.
3. Shift the focus of the HWI unit from providing "personalised services tailored to the complex tax affairs of HWIs" towards greater accountability and scrutiny of tax structuring done by the elite. Due to the client-centred focus of the HWI unit, there has been reluctance to adequately investigate the feasibility of a net wealth tax.
4. Amend **the mandate of the HWI unit** to ensure that the wealthiest individuals do not use sophisticated loopholes to minimise their tax bills. The unit should also be centred around the importance of wealth redistribution in the world's most unequal country through, for example, implementing a wealth tax. By adequately funding SARS and refocusing its efforts on enforcing compliance among the economic elite, the state can strengthen its primary tool for redistribution and meaningfully address the country's extreme inequality.

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SPENDING TO MEET OUR NEEDS: TRENDS, POLICIES & GAPS

The government claims that the budget is pro-poor, but a budget that directs most of its funding to the social wage can still fail to meet constitutional obligations. While previous chapters have shown that it is possible to increase fiscal space through the tax system, this chapter looks at why it is necessary.



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INTRODUCTION

There are egregious examples of constitutional and human rights violations that occur daily, from children dying from hunger and in pit latrines to hospitals being too overcrowded and ill-equipped to treat patients. Although there are, and will always be, finite resources, the limits to the use of available resources are often construed politically and subjectively. In the context of South Africa's extreme inequality, a lot more redistribution can and should occur.

It is often argued that the size of the public sector is too big, but everyday experiences of accessing education, healthcare and social protection contradict this claim. Maximising tax progressivity is fundamental to bridging the gap between what is currently funded and the rights that are guaranteed to all.

This chapter examines public spending in South Africa for key social sectors. It delves into how neoliberal economic policy and unfunded socioeconomic targets have persistently coincided with record-beating levels of inequality and unemployment. While prior chapters dealt with how to increase fiscal space through taxation, this chapter looks at the gaps that could be covered if we start to demand an increase in the size of the pie, rather than fighting about which parts of the pie are more important.

HAS GOVERNMENT SPENDING REACHED ITS LIMITS?

Fiscal redistribution is necessary for addressing systemic inequality, and to ensure dignity for all.

Increasing the progressivity of the tax system is both a fiscal and a moral imperative. South Africa has the highest levels of inequality of all countries where data is available. Fiscal redistribution is not only necessary to ensure that public expenditure safeguards against indignity, but it is also important to address structural inequality that has emerged historically through regimes of dispossession, disenfranchisement, and exploitation.

South Africa has the highest GDP and the largest national budget on the continent. Still, there has been slow progress in addressing socioeconomic ills, such as mass

unemployment, intractable inequality, and deep levels of poverty. While the majority of the budget is allocated to pro-poor spending on health, education and social development, public expenditure is insufficient to fulfil constitutional obligations.

Public expenditure is insufficient for fulfilling constitutional obligations given available resources. Even though South Africa has the highest GDP and largest national budget on the continent, there has been slow progress in addressing mass unemployment, intractable inequality, and deep levels of poverty.

The country is similar to many African countries in that more is spent on servicing debt than on health or education.¹ Debt-servicing costs are also the fastest-growing share of state spending. The underlying issue, however, is not debt but stagnating economic growth — a condition exacerbated rather than alleviated by the prevailing turn towards austerity. Shrinking public expenditure further contracts public investment, aggregate demand and productive capacity, resulting in an increase in the debt-to-GDP ratio over time. Apart from not even being able to meet its immediate goal of reducing the debt-to-GDP ratio, austerity also systematically erodes quality of life, through weakened state capacity and public services. When the state withdraws from its role in providing services and social infrastructure, survival becomes dependent on the coerced resilience of women, girls, and communities.

The Treasury has not set specific targets for spending on key sectors such as healthcare or education, nor does it set spending targets for the alleviation of poverty or similar indicators. In fact, these latter indicators are not explicitly tracked in the budget review.

In terms of consolidated government expenditure, healthcare consumes 11.48%, basic and post-school education together 19.78%, and agriculture 1.17%.²

For the purposes of meeting the United Nations Sustainable Development Goals, relevant international targets include, as a proportion of all government expenditure:

- 20% on education (Incheon and Paris Declarations)
- 15% on healthcare (Abuja Declaration)
- 10% on agriculture (Maputo and Malabo Declarations)

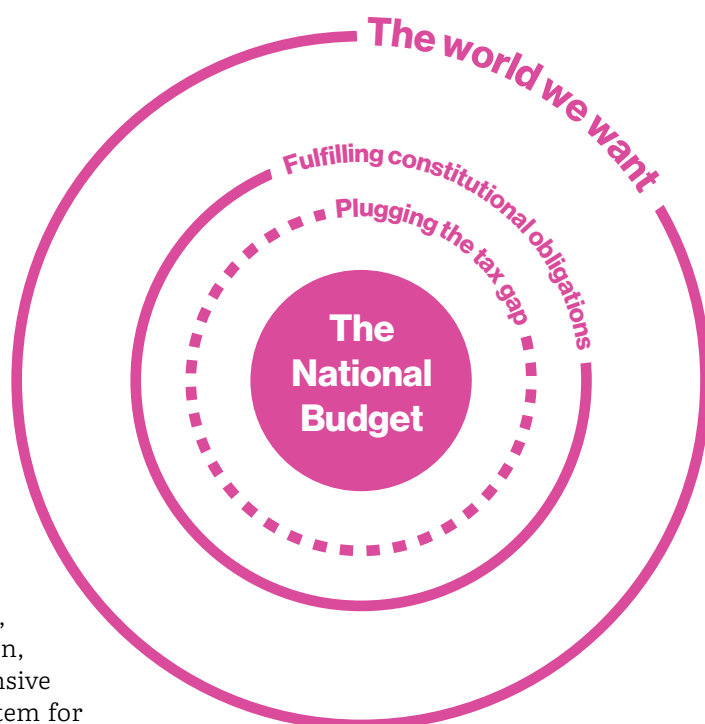
South Africa falls short on all these targets, with only education coming close. Table 1 compares South Africa with its neighbours:

A decade has passed since the Living Conditions Survey was conducted in 2014/15, but the data containing updated nationally representative statistics on poverty is yet to be made available. The direct impact that public spending has on reducing poverty and inequality is not scrupulously tracked, monitored, or mentioned in key national budget documentation.

Sector	South Africa	Namibia	Zimbabwe	Targets
Education	19,78%	22%	16,29%	20%
Healthcare	11,48%	13%	9,31%	15%
Agriculture	1,17%	2%	7,16%	10%

Left: Table 1: Social spending, South Africa and its neighbours. Sources: Respective National Budget Reviews, 2022 - 2024.

Right: Figure 1: The Budget and its failure to meet constitutional obligations.



Approximately 60% of expenditure is directed to poverty and inequality reduction in the form of the social wage, which includes spending on basic services, housing, transport, education, health and a relatively extensive cash grants social security system for people below a certain level of income. But the government’s “pro-poor” budget narrative rests on a flawed premise. A budget that directs most of its funding to the social wage can still fail to meet constitutional obligations. A significant deficit in the state’s fiscal capacity to fulfill its duties means the actual pro-poor share falls short of meeting constitutional obligations, as shown in Figure 1.

There are egregious examples of constitutional and human rights violations that occur daily, from children dying from hunger and in pit latrines to hospitals being too overcrowded and ill-equipped to treat patients. In order to meet people’s needs, improving the tax system and maximising its revenues are imperative. Often, when constitutional violations occur, the state argues that fulfilling its responsibilities is outside the ambit of available resources. Although there are, and will always be, finite resources, the limits to the use of available resources are often construed politically and subjectively, depending on how much or little redistribution is deemed necessary and appropriate. In the context of South Africa’s extreme inequality, a lot more redistribution can and should occur. It is true that even if we exhaust the tax system, we will not be able to meet all the competing and important needs. We therefore need an inclusive growth and industrial strategy so that the national budget can shift closer to the world we want, where dignity and prosperity are not elusive ideals.

Spending on the ‘social wage’ is tracked and often highlighted in presidential and ministerial speeches and documents. But the direct impact that spending has on reducing poverty and inequality is not scrupulously tracked, monitored, or mentioned in key national budget documentation. To give one example, the ‘social wage’ tracks expenditure on nurses’ salaries. But if a hospital is understaffed to the point that patients cannot receive care, then that expenditure is not improving the quality of life of the intended recipient, nor is it contributing to poverty alleviation at an aggregate level. Since the Living Conditions Survey was conducted in 2014/15, the country has gone over a decade without updating nationally representative statistics on poverty. Without access to data on how many people are living in poverty, the state and policymakers are unable to determine whether the fiscal framework and revenue proposals are having the desired and necessary impact. Accountability from the government by civil society also becomes elusive. This disconnect between input-based accounting and outcome-based impact underscores the need for a macroeconomic framework that assesses not just budgetary effort, but its impact on the triple challenge of poverty, inequality and unemployment.

FISCAL AND ECONOMIC STRATEGY

Key Macro-economic policies in South Africa



The Reconstruction and Development Plan (RDP) that was in place during the embryonic stages of South Africa's democracy saw an emphasis on redistribution through the provision and mass expansion of free basic services. There was a focus on housing, healthcare, education, and infrastructure. However, budget pressures and prevailing economic orthodoxy meant that this period of expansionary fiscal policy became stunted.

Under GEAR, there was fiscal contraction marked by significant reductions in government expenditure as a share of GDP, accelerated trade liberalisation, tight monetary policy, privatisation, and deregulation of financial markets.³ GEAR shifted the economic strategy from critically-needed reconstruction and development to neoliberal orthodoxy. During this period, key socioeconomic indicators such as unemployment and inequality increased, while main budget non-interest spending⁴ declined from 22% of GDP in 1996/97 to 19% in 2000/01.⁵

AsgiSA's objective was to reduce unemployment and poverty, while increasing the GDP growth rate to 6% by 2010.⁶ It was more focused on getting the state involved in infrastructure development. However, weak coordination, inadequate funding, poor implementation, and the shock of the Global Financial Crisis — combined with its rooting in neoliberalism — meant that it fell short of its targets.

Another policy which failed due to a lack of coordination among stakeholders was the **New Growth Path**, which aimed to deliver 5 million jobs over the course of a decade.⁷ It was quickly superseded by the National Development Plan.

The National Development Plan includes specific objectives for addressing the triple challenge of unemployment, poverty and inequality by 2030. The NDP set an annual growth target of above 5%, an unlikely ambition under continued neoliberal dispensation. Despite the targets being lauded as 'ambitious', its aim was to reduce inequality to a Gini Coefficient of 0.6 – still an outlier by international standards. A decade later, more than half of the targets have regressed below their starting points and are therefore even further away from these 'ambitious' goals.⁸ Ultimately, the NDP has been critiqued for being a vision without a plan.⁹ A further critique is that the NDP's ambitions are not met with sufficient state funding.

A decade into the NDP period, more than half of the targets have regressed below the baseline and are therefore even further away from the 'ambitious' goals.

The current economic strategy, first introduced by the Finance Minister in 2024, consists of four pillars that are roughly aligned to the NDP:

1. Maintaining macroeconomic stability
2. Implementing structural reforms
3. Building state capability
4. Supporting growth-enhancing public infrastructure investment

Although ostensibly sound, this four-pillared approach fails to address the underlying structural issues in the economy. According to the Treasury, maintaining macroeconomic stability is important for lowering interest rates, and reducing the cost of capital and borrowing, which in theory will lead to increased investment. However, 'maintaining macroeconomic stability' often translates, at the fiscal level, into deepening fiscal consolidation and austerity.

Austerity in South Africa has proven to be self-defeating. The underlying economic problem is not debt but rather stagnant economic

growth. The attempt to lower the debt-to-GDP ratio through budget cuts has only further constrained GDP growth, leading to a rise in the debt-to-GDP ratio over time. Furthermore, although the definition of structural reforms is vague and open-ended, in the context of the economic strategy it means to further liberalise and privatise the economy, thereby shrinking the role and capacity of the state. The economic strategy should prioritise overcoming poverty, unemployment and inequality, rather than focusing on debt stabilisation and liberalisation as the primary goals.

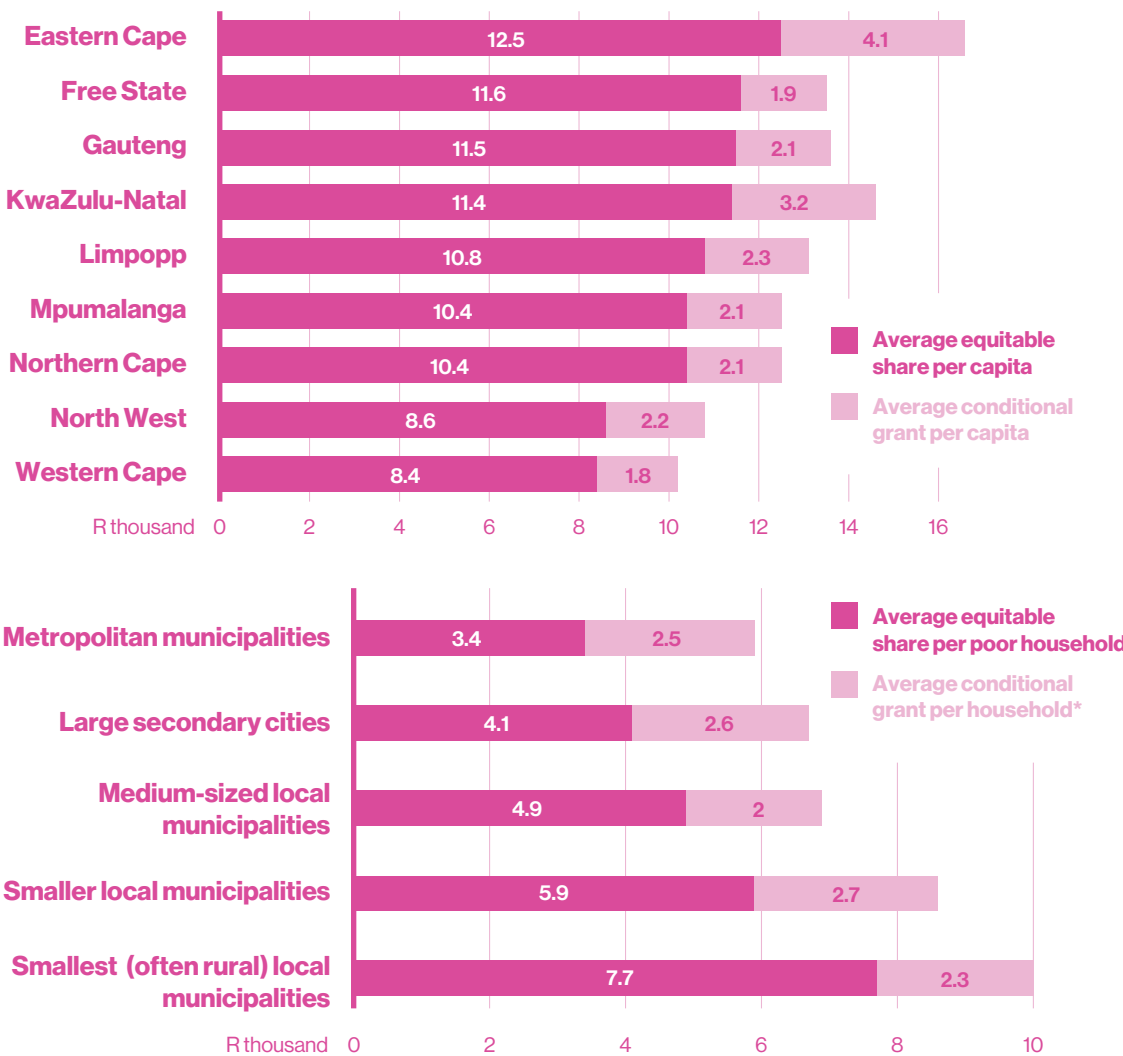
The economic strategy should prioritise overcoming poverty, unemployment and inequality, rather than focusing on debt stabilisation and liberalisation as the primary goals.

DIVISION OF REVENUE

There are three spheres of government in South Africa: national, provincial and local. The revenue raised is split between the three spheres. Basic education, health, roads, human settlements, social development and agriculture fall under provincial spending, while municipalities provide basic services such as water, sanitation, electricity reticulation, roads and community services.¹⁰

The equitable share formulas used to allocate funding to the provinces and municipalities are updated regularly to ensure that they are redistributive. Revenue also comes from conditional grants.

Below: Figure 2: Per capita allocations to provinces and per household allocations to municipalities, 2025/26. Source: National Treasury Budget Overview (2025).¹¹



Conditional grants are designed to meet specific objectives, and provinces need to meet certain criteria to receive them and fulfil conditions when spending them. The equitable share formula, on the other hand, is designed to take account of demographic and developmental factors.

Figure 2 below shows the per capita and per household allocations to provinces and municipalities, respectively.

There are equitable allocations between provinces and municipalities, but the allocations to local and provincial government are often insufficient to ensure the adequate delivery of services. Due to widespread unemployment and poverty, relying on a full-cost recovery model for fundamental and rights-based services, such as water and electricity, sets municipalities up for failure. A local fiscal framework, in the context of the socioeconomic realities of South Africans, needs to be oriented around ensuring access to basic services and modelled on principles of redistribution and subsidisation.

GENDER-RESPONSIVE BUDGETING

Macroeconomic policy design is seldom gender neutral. Gender-responsive budgeting (GRB) is a strategy that ensures budgets work for everyone, including women, men, children, and non-binary groups. In the 90s, during the democratic transition, a politically conducive era when there was more appetite for doing policy differently, there was an attempt to introduce GRB into budget policy work. This was later dropped after the adoption of the neoliberal economic agenda, GEAR.

Today, over 30 years into democracy, Black, working-class women continue to hold very little economic power, despite being deeply embedded into the functioning of all economic and social life in the country. While more women have entered the labour force as workseekers, this has not been accompanied by an increase in the number of women in employment. So, sufficient access to income from formal work remains low for women in particular. Although women and girls do benefit from a number of social protection policies — such as fee-free education, school nutrition programmes and social grants — expenditure per person in real terms remains modest.

The Treasury itself does not track the impact of these measures on gender equality. The AIDC has produced a report, “Austerity is a Feminist Issue”, looking at the impacts austerity measures have on women.¹² Not only do women experience job losses through cuts to public sector employment, but there is also an increase in women’s informal employment. Informal employment is shown to be associated with lower income, fewer social protection benefits and greater precarity. The outcome is worse for women, who experience multiple and intersecting forms of discrimination based on their income status, age, race, sexual orientation or migrant status. In South Africa, Black women are by far the most economically vulnerable population group, relative to other groups and genders. A single Black mother is far less likely to have a job and an income resilient to economic shocks than a white woman, making her far more exposed to the effects of cuts in social expenditure.

South Africa has made a number of commitments towards GRB, including the adoption of a Gender-Responsive Budgeting Framework (GRBF). However, despite commitments made in the past, implementation has not occurred to date due to a lack of buy-in from other departments, and because the National Treasury is “perceived to have played a less than central role insofar as current attempts to institutionalise the GRBF”.¹³ In the 2023/24 Budget Review, the Treasury announced the completion of the GRBF guidelines.¹⁴

The Gender-Responsive Budgeting Framework lacks political buy-in and sufficient resources.

The Gender-Responsive Planning, Budgeting, Monitoring, Evaluation and Auditing Framework is intended to be implemented in all government departments. However, its implementation takes place on a small scale, within individual programmes and units of individual government departments. For example, the Department of Science and Innovation has set targets for bursaries awarded to women, while the Department of Minerals and Energy

Resources has skills programmes for female small-scale miners.¹⁵ However, according to the most recent evaluation report, no departments have fully implemented GRB, and therefore it is impossible to determine whether these policies are having an effect and are therefore adequately resourced.

It is important to note that, according to the framework evaluation, “the GRPB approach does not necessarily entail additional resources but rather a more equitable allocation of resources”.¹⁶ It further notes that “given DWYPD’s [Department of Women Youth and Persons with Disabilities] severely constrained budget, Overseas Development Cooperation was considered towards the mobilisation of additional resources.”¹⁷ In summary, insufficient resources have been allocated towards this programme.

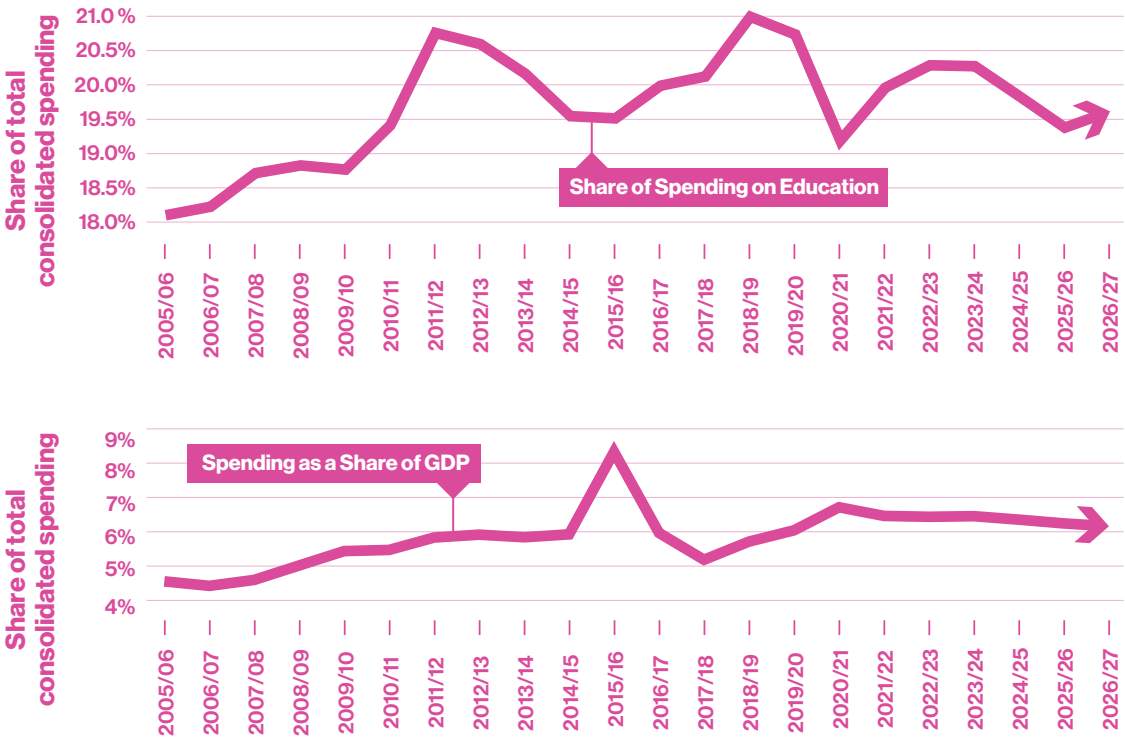
In 2025 National Treasury released a gender budget statement aimed at evaluating how gender disparities are addressed through budget policy.¹⁸ However, the statement is significantly limited in scope: it lacks the historical and socioeconomic context of the current position of women in society, narrowly focuses on “women’s economic empowerment,” and relies heavily on gender tagging as the primary tool for GRB. While

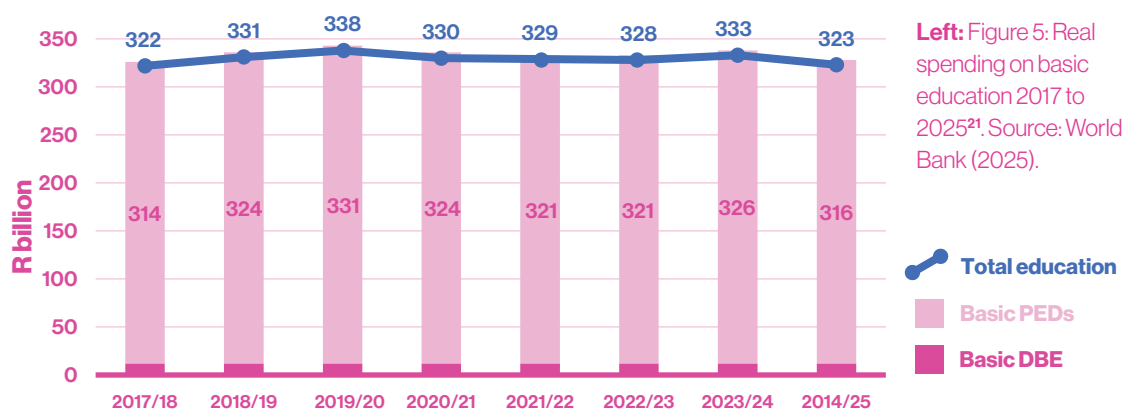
gender tagging can be a useful initial step in the gender-responsive budgeting process, it is an inadequate approach, because it categorises spending into rigid silos that only recognise direct benefits to women. This overlooks the nuanced ways in which public expenditure can have both direct and indirect impacts across genders. Moreover, the gender statement ignores how austerity measures have deepened the crisis of social reproduction – when the state withdraws from its role, it is often the labour of women and girls that closes the gap.

EDUCATION

Education is one of the largest components of government spending in South Africa, currently sitting just below 20% of total expenditure, or 6% of GDP, as shown in Figures 3 and 4.

Below: Figure 3: Education spending as a proportion of total consolidated expenditure.¹⁹
Bottom: Figure 4: Education spending as a proportion of GDP since 2005.²⁰



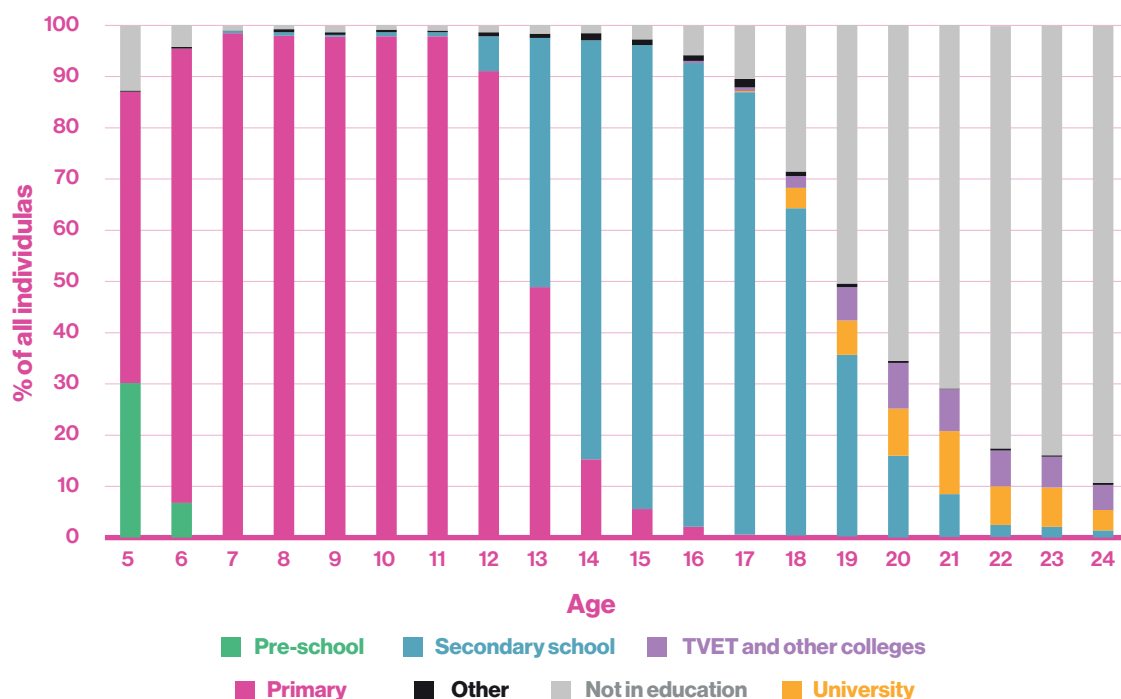


The problems in the education system point to two issues: there is poor value for money spent on public education, and not enough money is being spent. The legal framework in South Africa that promotes access to quality education is strong, but this is not always met with equivalent commitments in terms of financing and implementation.

It is often reported that, despite relatively high levels of investment in education, outcomes remain poor and inadequate. However, an unpacking of the complexities, trends, and structural inequalities within the South African education sector reveals that funding levels are insufficient to ensure that principles of free, quality education are upheld. This is evidenced by austerity measures and budget constraints that negatively influence access to early learning, sufficient nutrition,

and infrastructure, along with many other determinants that complement a successful schooling experience and that are necessary to level the very unequal playing field. Over the last decade, total education spending as a percentage of GDP has increased from 5.9% in 2014/15 to 6.4% in 2024/5. However, although education spending as a percentage of GDP and of total expenditure is relatively high, there has been a decline in real spending over the last five years, as can be seen in Figure 5. The expenditure on basic education is 4.3% of GDP — higher than the majority of Upper-Middle-Income Countries (UMICs) but lower than UMICs with high degrees of inequality.²²

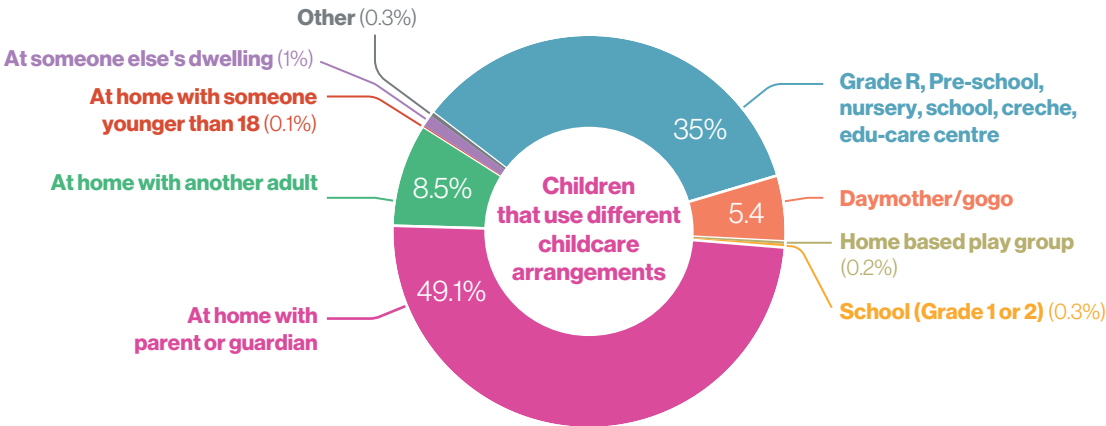
Below: Figure 6: Type of educational institution attended by individuals aged 5-24 years (2024).²³



The education system comprises basic education (ages 5 to 18) and post-school education and training. Basic education is compulsory for children up to the age of 15. Although attendance is high for compulsory schooling, this does not capture the regularity of school attendance. The quality of education and the rate at which children progress through the schooling system are also important indicators when evaluating the state of education. There are access gaps for both early learning and higher education; the proportion of children attending school decreases after the compulsory schooling age of 15; and there is a significant drop in the proportion of learners not in education in the later teen years, as can be seen in Figure 6.

Traditionally, there has been a focus on promoting access to quality education and making schooling compulsory for children aged 6 to 15. Principles of universal access to quality education are strongly promoted, but not everyone is provided with free access. The schooling system is ranked into quintiles, which is based on the income, literacy and unemployment levels in the community.²⁴ Children who attend schools in quintiles 1 to 3 are exempt from paying school fees, but caregivers often still need to cover the costs of uniforms and stationery for their children. Learning is also shaped by the environment outside the school. Addressing disparities in educational outcomes requires ensuring children's basic needs for nutrition and healthcare are met, as well as providing high-quality early childhood programmes to promote school readiness.

Below: Figure 7: Different childcare arrangements for children aged 0-5.²⁷



Despite recent efforts to encourage earlier entry into learning, the availability, accessibility and funding for Early Childhood Development (ECD) remains out of reach for many. The small ECD subsidy has only increased in 2025 for the first time from R17 per day per child in 2019 to R24 per day per child,²⁵ but even this increase simply keeps up with inflation. Moreover, the majority of children do not receive ECD-based education as can be shown in Figure 7.

The newly introduced BELA Act promises to expand basic education to Grade R and make education for 5- and 6-year-olds compulsory, but only 70% of Grade R schooling is currently funded, with provinces reported to need approximately R45 billion in additional funds over the next three years to meet their mandate.²⁶ Without guaranteed funding, providing universal access to Grade R will remain elusive.

The lack of universal access to ECD facilities and Grade R, combined with the slow but continuous erosion in the education budget that impacts a range of outputs such as scholar transport, school attainment, free and nutritious school meals, and teacher-to learner-ratios, reflects how budget constraints result in a schooling system that over-relies on the network of unpaid and underpaid labour to support it, in lieu of state-guaranteed support.

It is important to note that there are significant rural and urban differences in the type of access, resources and quality that learners receive, which are exacerbated by poverty. Rural children in South Africa encounter greater access barriers than children in urban areas – 19% of secondary school-age children in the former homelands, and 25% of those living on farms, travel for more than 30 minutes to school, compared to 11% of children living in urban areas.²⁸ Data from 2007 showed that 41% of Grade 6 learners in rural schools were illiterate, compared to 13% of urban learners from the same grade.²⁹

Growing classroom sizes are largely due to funding pressures. There are over 30 000 vacant posts in the public education sector, even though approximately 12 000 qualified educators are ready and waiting to be placed in schools.³⁰ One of the underlying issues is budget constraints and austerity measures, resulting in increased pressure on class sizes. Furthermore, teacher absenteeism on any given day is 10% in South Africa,³¹ influencing both the quality of education and overall teacher workload within schools. High rates of teacher absenteeism in South Africa is largely due to insufficient policy. There are some who argue that a high teacher pay and difficulties in keeping up with public sector wage negotiations have led to lower staff headcounts and a real decline in funding per learner over time. However, claims that teachers are paid too much in South Africa are incorrect. A study found that the purchasing power of teachers in South Africa is comparable to that of teachers in other middle-income countries.³² In 2019, the disposable income of the average teacher was approximately R23 000.³³ Moreover, jobs that are in the care sector and that have historically been overrepresented by women often tend to be underpaid. In the same way that high salaries in the public sector, such as for doctors, judges and engineers, need to be paid competitively, similar principles should be applied to the teaching profession. The underlying problem is a failure to increase the size of the budget, not necessarily that staff costs are consuming an unreasonable share of the education budget.

While education outcomes for secondary school leavers have been improving, there

are some worrying trends in relation to the quality and inequality of the schooling system in South Africa. Significant disparities in literacy and numeracy between children from affluent and low-income backgrounds are already apparent by the end of the Foundation phase. The majority of young children are unable to read for meaning,³⁴ and infrastructure backlogs mean that many schools are unsafe, with some learners only having access to pit latrines rather than working toilets.³⁵ In 2014, 5-year-old Michael Komape tragically died when he fell into a dilapidated pit toilet in a rural school in the province of Limpopo.³⁶ Access to safe and dignified sanitation is still not guaranteed in South Africa's schools, especially in rural areas. The School Infrastructure Backlogs Grant (SIBG) is only set to provide 50 schools with sanitation facilities per year, despite a backlog of approximately 236 schools that remain entirely dependent on pit latrine systems.³⁷

In 2014, 5-year-old Michael Komape tragically died when he fell into a dilapidated pit toilet in a rural school in the province of Limpopo.³⁸ A decade later, over 200 schools in the country still remain entirely dependent on pit latrines.

A good education budget is one that ensures that the rights of all people are guaranteed, including people living with disabilities. The needs of children with disabilities, however, are not adequately met in the South African schooling system. There are approximately 600 000 children with disabilities who remain out of school, and departmental data is limited.³⁹ There are nearly 121 500 learners with disabilities in ordinary schools, 119 500 enrolled in special schools, and close to 11 500 children with disabilities on waiting lists to enrol in special schools.⁴⁰ Problems noted include extensive vacancies in inclusive education at the provincial and district level, special needs schools not always teaching the national curriculum and sometimes acting as 'daycare centres', hostels in poor conditions, and an insufficient number of teachers.⁴¹

It is also important to evaluate how the education budget improves, diminishes, or maintains gender equity. Across all sectors, there is a general lack of data on gender-responsive indicators. An analysis of one of the key policy frameworks showed that 40% of the indicators for education were gender-blind and 60% could be gender-disaggregated but were not explicitly gender-sensitive.⁴² There are overall positive outcomes in gender parity for both enrolment and graduation. The participation rate for girls in primary and secondary schools is one of the highest on the continent.⁴³ In 2022, it was reported that the university graduation rate for women surpassed the graduation rate for men although disproportionately more men hold masters and doctoral degrees. While these are notable achievements considering historical gender imbalances, a gender-sensitive budget goes beyond the narrow approach of simply counting how many girls and women graduate.

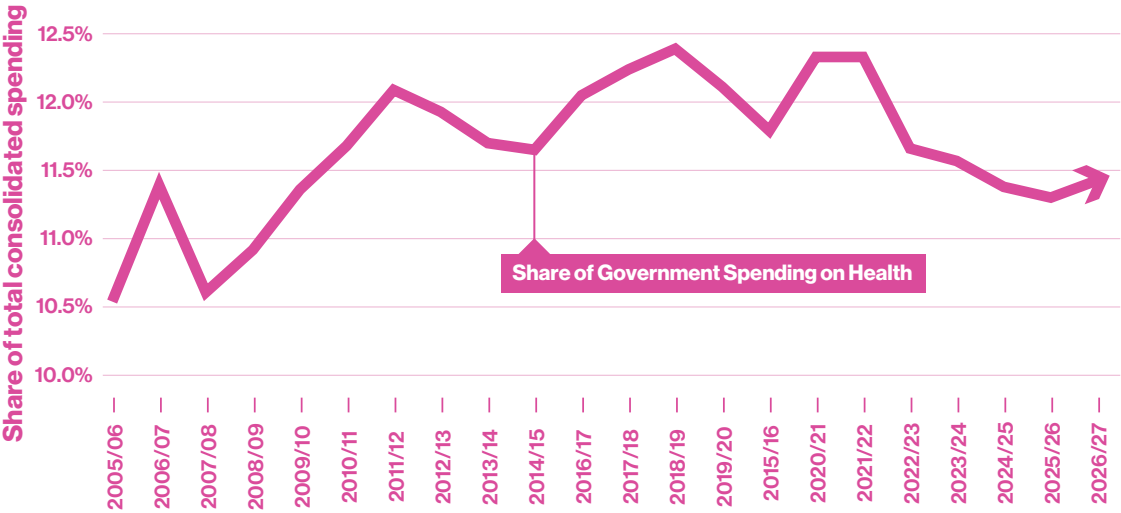
While some education outcomes have been improving, deep structural inequalities within the education system remain. The decline in per capita expenditure threatens to deepen the divide in education outcomes unless there is considerable investment in early learning, infrastructure, rectifying structural barriers, and adequate funding support for children living with disabilities.

HEALTHCARE

South Africa has a progressive constitution which upholds the principle of universal access to quality healthcare. Under the constitution, everyone has the right to access health care services, including reproductive health care.⁴⁴ Access can be unpacked across three dimensions: availability, affordability and acceptability.⁴⁵ The constitution also states that the state must take reasonable legislative and other measures, within its available resources, to ensure that these rights are progressively realised.⁴⁶ Austerity measures have contributed to the crisis in healthcare, often compromising patient and worker rights and undermining principles adopted in national development plans, policies and strategies.

The healthcare system that the South African government inherited in 1994 was extremely fragmented, and resources were unequally divided between the public and private sectors.⁴⁷ At the public level, there were 14 separate health departments in the country, including one for each of the four former provinces and 10 for the former ‘Bantustans’.⁴⁸ Healthcare in the ‘Bantustans’ was largely underfunded, and control was manipulated from Pretoria.⁴⁹ Services were concentrated at the hospital level, and primary public health care was underdeveloped and neglected.⁵⁰

Below: Figure 8: Spending on health as a proportion of total consolidated expenditure. Source: Author's calculations using National Treasury budget data.



The health system in South Africa has since been restructured into provincial administration, but many of the remnants of the racial and geographical disparities in accessing free, universal health care remain. For example, data has shown that a child living in the Eastern Cape is twice as likely to die in their first year of life as a child living in the Western Cape, while a person with tuberculosis in Gauteng has a 20% higher probability of being cured than one who accesses healthcare in the North West.⁵¹

Budget cuts and other factors have often undermined the right to affordable access to healthcare. Government spending on health care is 11% of total expenditure - four percentage points shy of the desired 15%. South Africa adopted the Batho Pele Principles in 1997, which promotes providing healthcare impartially, fairly, equitably and without bias. Batho Pele means people first, reflecting a commitment to provide quality care for all citizens. Despite these commitments, patients in clinics are often turned away due to lengthy queues, essential operations are postponed or cancelled, and life-saving interventions are not reaching people in need. Figure 8 shows that, since 2021, the proportion of public expenditure spent on health has been declining.

Although spending is high relative to other African and upper-middle income countries, there is massive inequity in the healthcare system - five times more of the total health resources in the country are distributed in the private sector, for only approximately 16% of the population who are covered by private health insurance.⁵² The medical aid tax credit rebate subsidises people who are privileged enough to access private healthcare. It is targeted to disproportionately benefit and subsidise the upper-middle class and it should therefore be scrapped as mentioned in the recommendations of this report.

The highly unequal nature of the healthcare system in South Africa means that public services are often understaffed and under-resourced, meaning that accessing life-saving treatment and care is often determined by income. When the state withdraws from its constitutional obligations and implements budget cuts, the elite are still able to access quality healthcare in the private sector, but the majority are priced out. The austerity-fuelled collapse is costing lives — in some hospitals, operations have dropped by 60% from pre-pandemic

levels. In KwaZulu-Natal, there is only one functioning cardiac unit in the public sector, and one cardiologist who sees 60 patients a day.⁵³ The number of cardiac surgeries taking place in the province have halved. By contrast, the private sector in the province has 30 cardiologists.⁵⁴ There are unfortunately many other stories of the state collapse in the public health sector that is being largely driven by austerity.

South Africa has a quadruple burden of disease, which includes: (i) HIV/AIDs, Tuberculosis (TB), and sexually transmitted infections (STIs); (ii) maternal, neonatal, and child morbidity and mortality; (iii) noncommunicable diseases predominantly related to lifestyle; and (iv) violence, injuries and trauma.⁵⁵

South Africa has the highest burden of HIV in the world – approximately 12% of the population are currently living with HIV.⁵⁶ The dawn of the HIV/AIDS epidemic coincided with the advent of democracy, and it had a devastating impact on social and economic indicators. By the time treatment had become possible, adult life expectancy was reduced from 63 years in 1990 to 54 years in 2005, and at its height, many children were orphaned.⁵⁷ Despite the HIV/AIDS crisis, there was a reluctance to provide lifesaving antiretroviral treatment (ART) under Thabo Mbeki's administration of AIDS denialism. This period is estimated to have resulted in approximately 300 000 avoidable deaths.⁵⁸

Through sustained pressure from social movements under the banner of the Treatment Action Campaign (TAC), government's policy approach shifted towards scaling up ARTs and prevention programmes. By 2021, a total of 7 million people were diagnosed with HIV, of which 5.5 million were initiated on ARTs, and 5.1 million were virally suppressed. The turnaround in the lifesaving access to ARTs has been a remarkable achievement of the advancements in HIV research and patient care. Sustained funding, however, remains crucial for people living with HIV. The recent withdrawal of US funding from South Africa constitutes 18% of the country's funding for HIV/AIDS and it is estimated that it will lead to over 600 000 HIV-related deaths over the next decade, unless replacement funding is secured.⁵⁹

There are many underlying socioeconomic factors that influence health outcomes. Even though South Africa is an upper-middle income country, hunger and malnourishment

are widespread. South Africa does not face food shortages, but there are issues in the distribution, affordability, availability and accessibility of healthy, nutritious food.⁶⁰ In 2024, 23% of children were living in severe child food poverty and faced the risk of life-threatening malnutrition and related health complications.⁶¹ In the first half of 2025 alone, 155 children died from malnutrition.⁶²

155 children died from malnutrition during the first six months of 2025.

There is a concurrent shortfall of healthcare practitioners in the public sector, combined with 1 800 unemployed qualified doctors who are seeking employment. The doctor-to-patient ratio is 0.31 to every 1 000 people, compared to an international norm of 1 doctor for every 1000 people. Figure 9 shows that according to governmental databases, there is a national average of 9 percent of posts that are vacant, but this does not include the number of posts that have been removed entirely from departmental organograms due to historical budget cuts.

South Africa experiences one of the highest rates of gender-based violence (GBV) and femicide in the world, with one in five women having experienced physical violence by a partner and many more experiencing forms of violence from men they know, and

strangers.⁶³ Despite robust legal frameworks, policies and high-level commitments to tackle GBV, it remains pervasive and the incidence continues to rise at an alarming rate. Coordination gaps, underfunding, and limited implementation has meant that, by early 2025, only 58% of the R57 billion allocated to tackling GBV for the 2020-2025 period had been spent.⁶⁴

An analysis of the Medium-Term Strategic Framework (MTSF) in 2018 showed that just under half of the indicators (49%) for health were not gender-relevant, indicating a blindness to the different ways people access and experience healthcare. Some of the indicators (13%) were found to be gender-sensitive and the remaining indicators (38%) could be disaggregated by gender but not necessarily gender-sensitive.⁶⁵ Given South Africa's high burdens of GBV and HIV/AIDS, a gender-responsive budget would prioritise funding for reproductive health services, gender-sensitive HIV prevention, and programmes targeting vulnerable groups, like adolescent girls and LGBTQ+ communities. Due to the funding constraints and withdrawal of significant funding from sexual and reproductive health programmes from the United States of America, the distinct needs of women, men, children, and trans and non-binary groups are at risk, and the promotion of equitable access to healthcare is not fully guaranteed.

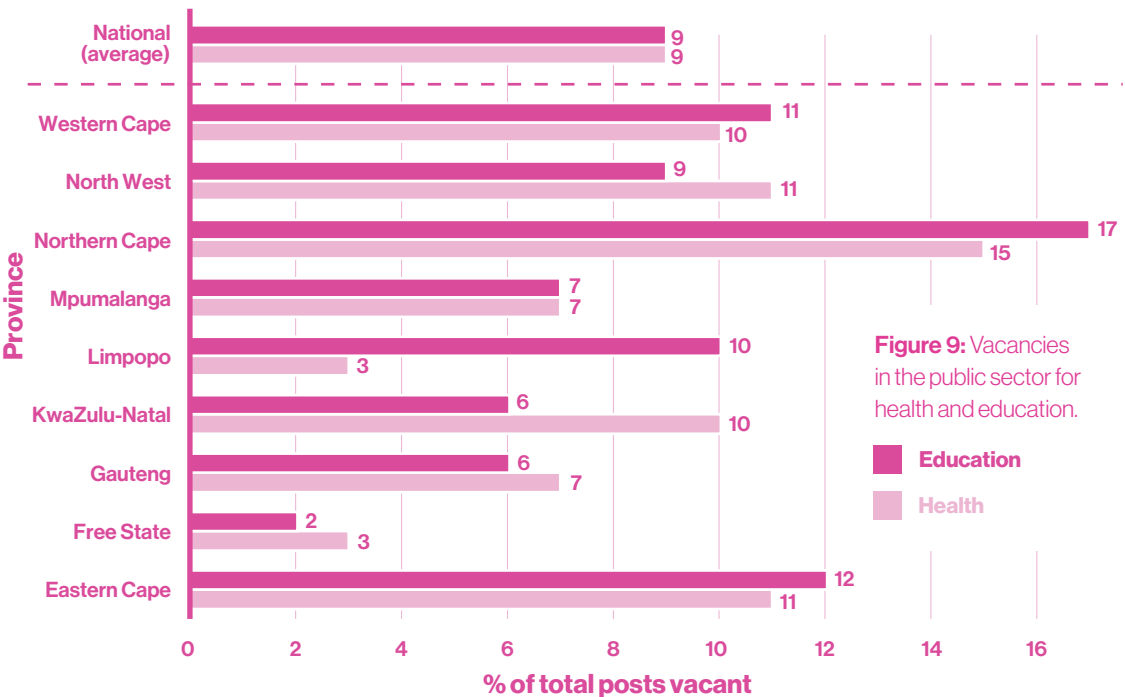


Figure 9: Vacancies in the public sector for health and education.

■ Education

■ Health

The South African National Integrated Sexual and Reproductive Health and Rights Policy encompasses several aspects of reproductive health, such as contraception, fertility, and choice on termination of pregnancy, as well as aspects of sexual health - including STIs, sexual pleasure or dysfunction, and the health consequences of violence. The policy values the importance of autonomy, individual choice, sexual health and human rights. The policy includes the following objectives:⁶⁶

- Objective 1: Equip all people to make informed decisions about their SRHR and ensure that they are respected, protected, and fulfilled.
- Objective 2: Increase the quality of, and access to, comprehensive and integrated SRHR care and treatment services across all life stages.
- Objective 3: Ensure access to respectful and non-judgemental SRHR services for priority groups.
- Objective 4: Strengthen the health system to deliver integrated SRHR services at the lowest feasible level in the health care system.⁶⁷
- Objective 5: Promote multi-sectoral engagement and shared accountability for sustainable and rights-based service delivery.

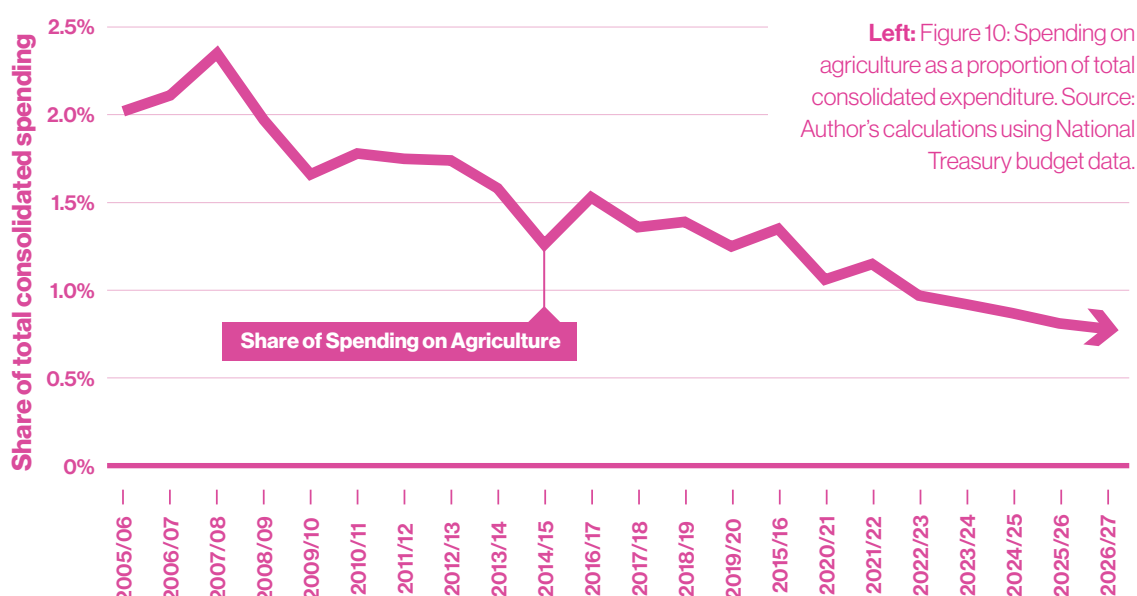
The proposed National Health Insurance (NHI) was envisioned as a solution to the country's deeply unequal healthcare system. The NHI aims to pool funds together to provide access to quality and affordable healthcare to all South Africans based on their needs, irrespective of their socio-economic status. Rather than public healthcare allocations going to provinces, healthcare priorities will be shaped at the district level, and this will in theory allow for services to be more responsive to the needs of the community.⁶⁸ However, its success hinges on addressing systemic challenges, including chronic underfunding, healthcare worker shortages, and inefficiencies in service delivery. Under the current trajectory of austerity, the principles of universal free access to quality health care are undermined. Moreover, existing geographical and spatial inequalities in the healthcare system could potentially be exacerbated.

AGRICULTURE

South Africa produces enough calories to feed the 60 million people who live in it, yet, paradoxically, one in four people go hungry on a regular basis.⁶⁹ There is a private and profit-driven food system, with high levels of productivity and market concentration, but at the same time millions go to bed hungry in a context of increasing household malnutrition. Since the food system in South Africa is heavily privatised and concentrated, there is little room for legislation to encourage nutritious and available sources of food. There is a triple burden of malnutrition: undernutrition (evidenced by stunting and wasting), micronutrient deficiencies, and overnutrition (shown by overweight and obesity) occur simultaneously in communities.⁷⁰ Since more than half the population lives in poverty, rising food prices are often presented as the reason for malnourishment, as opposed to unavailable food sources.

A lack of affordability, rather than lack of available food, is a major cause of household food insecurity in South Africa.

Despite agriculture's potential to drive rural development and food security, budgetary allocations remain inadequate and skewed toward capital-intensive, export-oriented agribusiness. There are over 2 million smallholder or household farmers in South Africa, compared to 35 000 commercial farmers.⁷¹ There is an entrenched divide between mainly white-owned commercial agriculture and predominantly Black-owned subsistence farming, due to the inadequate and slow implementation of land reform, inefficient government decisions and support systems, poor financial support, bureaucratic delays, and incidence of droughts and diseases.⁷² White commercial farmers own 78% of the farmland (private title deeds), despite the fact that white people make up 7% of the total population in the country.⁷³ In 1994, the government set out a target of redistributing 30% of all farmland within five years, but the target has been moved to 2030. Up until 2022, 24% of all farmland or land rights has been redistributed and restored.⁷⁴



South Africa has endorsed the Maputo Declaration, in which signatories committed to allocate 10% of public expenditure to agriculture and rural development to strengthen agricultural productivity. Despite this commitment, less than 1% of all public expenditure is assigned to agriculture, meaning that there is very little room for financial support for transformation in the sector. Concerningly, the proportion of public expenditure allocated to agriculture has more than halved over the last two decades, as shown in Figure 10 above.

There is a National Policy on Food and Nutrition Security that is a collaboration between the Departments of Agriculture, Planning, Monitoring and Evaluation (DPME), Social Development and Basic Education. The policy seeks to ensure the affordability of safe and nutritious food at both the national and household levels. An evaluation of the policy's implementation plan found that only 11 out of 65 target indicators were met (17%) in the 10 years since the policy was approved by Cabinet in 2013. Where data was available, only modest progress in reducing the percentage of households experiencing hunger was noted.⁷⁵

Policies should focus on ways to ensure that safe and nutritious food is widely affordable and accessible. This could include increasing funding to support small-scale farmers, expansion of the social grant system, both in terms of the amount per recipient and also the number of beneficiaries covered, increased funding for school and community feeding

schemes, and pricing regulation. Increasing cash transfers and food programmes is increasingly challenging in a context of fiscal consolidation, and new policies on social protection that seek to curb the number of qualifying beneficiaries risk squandering any progress in combating food insecurity.

The crisis in South African agriculture stems from a double failure: chronic underfunding and a persistent bias towards large-scale export businesses at the expense of small-scale farmers. This can be addressed by consciously linking support for emerging farmers to massive public programmes like school feeding schemes. This would create a virtuous cycle — encouraging rural employment while putting nutritious, locally grown food on the plates of the most vulnerable, addressing both poverty and hunger.

SOCIAL PROTECTION

Any discussion on the adequacy of social protection should be predicated on the socio-economic context. Compared to the region, South Africa has relatively high levels of social protection coverage, but even after cash transfers and health benefits, the country is still faced with deep levels of hunger, inequality and impoverishment. More than half the population (55%) live in poverty, and 155 children died from malnutrition in the first half of 2025 alone⁷⁶. Although there is

technically and theoretically coverage to address various vulnerabilities across the lifecycle in different ways, social protection is not comprehensive, due to inadequate reach and amount of cash provided.

More than half of the population live in poverty.

South Africa has a large social protection system. There are contributory and non-contributory guarantees. Most non-contributory social protection consists of social grants, which cover 28 million people. South Africa's relatively comprehensive social grant system includes the monthly cash grants in Table 2.

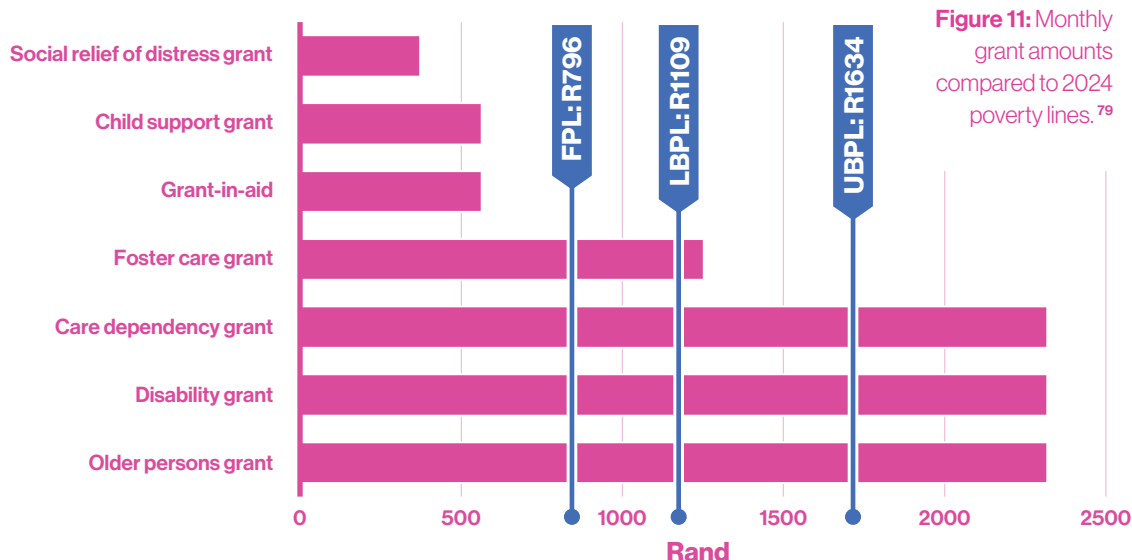
Below: Table 2: Types of social grants in South Africa.
Source: Budget Review, National Treasury (2025) and <https://www.gov.za/services/social-benefits>.

Types of social grants include the care dependency grant, child support grant (CSG), disability grant, foster care grant, grant-in-aid, war veteran's grant, old age pension, and the Social Relief of Distress grant (SRD). The SRD grant was introduced in 2020 in response to the Covid-19 pandemic and was the first cash transfer available for able-bodied adults of working age in the country. The SRD, CSG and grant-in-aid all fall below the Food Poverty Line, as can be seen in Figure 11.

Note: FPL, LBPL and UBPL refer to the Food Poverty Line, Lower-Bound Poverty Line and Upper-Bound Poverty Line, respectively.

Since its implementation, the SRD grant has been extended several times due to the problem of mass unemployment—12 million people (over 40% of the population) are without paid work.⁷⁷ The SRD grant falls below the Food Poverty Line, and the low qualifying threshold, digital interface, administrative complexities, and inadequate financing mean that only half of the people who live in poverty are able to gain access.⁷⁸ Its value has only been adjusted once since its introduction, resulting in an erosion of value over time. There is no universal basic income grant in South Africa, but there has been a sustained campaign to transform the current SRD grant into a permanent universal basic income guarantee.

Grant Name	Description & Qualifying Income	Qualifying age (years)	Number of Beneficiaries	Monthly value (R)	% of the FPL
Care dependency grant	A grant to care for a child with a severe disability who is in need of full-time and special care. Combined HH income < R446 400 p.a.	0-18	181 000	2 315	291
Child Support Grant (CSG)	Primary caregiver Income < R52 800 p.a. if single or < R105 600 p.a. if married.	0-18	13 242 000	560	70
Disability grant	Physical or mental disability causing unfitness to work for longer than 6 months.	18-59	1 073 000	2 315	291
Foster care grant	To take care of a foster child (orphaned, abandoned, at risk, abused, or neglected) placed in care by a court order.	0-18	197 000	1 250	157
Grant-in-aid	An additional grant for grant recipients (war veterans, old age pensioners or people with disabilities) who need full-time care.	18+	456 000	560	70
Old age pension (OAP) ⁸⁸	Income <R86 280 p.a or <R172 560 p.a. if married; assets <R1.2mn if single or <R2.4mn if married.	60+	4 258 000	2 315	291
Social Relief of Distress grant (SRD)	Only cash transfer for working age adults. Income < R624 p.m.	18-59	8 712 000	370	46



There has been an erosion of the value of the SRD grant over time.

Beyond social grants, examples of social protection coverage include the following for the various stages of the lifecycle:

- School-going children:
 - The National School Nutrition Programme (NSNP) - The school feeding scheme is mostly provided to all children who attend quintile 1 to 3 schools. Figure 12 shows that the scope of learners who benefitted from the NSNP increased between 2009 and 2024.

While the scope is large, covering 9 million learners, the scheme itself is underfunded, which results in a lack of nutritious food being provided. There are a range of other issues such as the slow disbursement of funds to schools, contracting of service providers, timely delivery of the correct and good quality goods, and payment of service providers on time, which all lead to some schools being unable to timeously serve meals to children.⁸⁰ Increased reports of food insecurity and malnutrition in the past few years highlight both the inadequacy and necessity of enhanced nutritional support for children and adults.

Below: Figure 12: Percentage of learners attending public schools who benefitted from the school nutrition programme by province, 2009 and 2024⁸¹. Source: General Household Survey, Statistics South Africa (2024).



- Working adults:
 - The Unemployment Insurance Fund (UIF) is a social insurance fund to protect workers in the event of unemployment. The contribution to the fund is 2% of an individual's salary in total, with equal amounts contributed by the employer and employee. UIF covers five types of benefits: unemployment, maternity, illness, adoption and survivor. The exclusion of informal workers, who often face increased levels of exploitation, precarity, and discrimination, leads to leakages in the social protection system.
 - Minimum wages: There is a National Minimum Wage (NMW) in South Africa, but this floor does not apply to domestic, agricultural or Expanded Public Works Programme workers. The minimum wage is below the living wage in South Africa, and enforcement is sometimes not applied due to practical limitations, such as the small number of labour inspectors, combined with the complexity and scale of different types of workplaces in the country. As a result of these factors, it is estimated that approximately 5.4 million workers are paid below the NMW and non-compliance tends to increase when increases to the NMW are made.⁸²
- Contributory social protection for older persons:
 - Two-pot Retirement System - a public-mandated but privately managed pension structure introduced in 2024 that requires all pensions to be split into two pots: a savings pot that can be withdrawn annually subject to taxation and a retirement pot that is locked in until retirement.
 - Government pension schemes - The Government Employees Pension Fund (GEPF) is a public pension scheme to which all government employees belong. Both the government and the employee make a contribution each month, but the government does not provide any contributions to employees outside the public sector.
 - Private pension schemes - Only 6 million South Africans contribute to private pension schemes, out of a population of 40 million working adults.

UNPAID CARE WORK

Austerity in South Africa has led to a deepening of the crisis of social reproduction. As the state slowly withdraws from its constitutional responsibilities, it is mainly through the coerced resilience of communities and the women and girls in them, that people survive. Austerity coupled with entrenched patriarchal societal norms, make the recognition, redistribution and remuneration of care work elusive in South Africa's current context. Further compounding the impact of austerity policies is the fact that, unlike other goods and services where it is possible to reduce spending, care work does not become more productive with advances in technology. Often, care work cannot be provided more efficiently aided by technology.⁸³ There are particular types of services and work where technology cannot be used as a substitute. Adequate recognition and remuneration should therefore be prioritised in the care sector.

There are several policies and provisions that the government has introduced to enhance support for unpaid care work, but it is often insufficient to meet even the most minimum of needs. Most support for unpaid care work is distributed through cash transfers.

The CSG is one example of a cash transfer in South Africa, but it is intended for the child, not the caregiver. Although the number of recipients of the CSG is high, the labour that goes into transforming cash into fed, clothed, clean and cared-for children is not recognised. Before the advent of the SRD grant, formally unemployed caregivers were for the most part left outside of the social grant system. The vast number of exclusions from the SRD grant often mean that cash grants, like the CSG and OAP, are shared and pooled among many household members, diminishing their ability to sufficiently address the depth and scope of poverty. The grant has significant spillover effects. When direct and indirect beneficiaries are counted together, the total number is twice that of direct beneficiaries alone.⁸⁴ This reflects pooling of the grants within households, but also among extended members of the community.

In addition to the CSG, the government also offers an Early Childhood Development (ECD) subsidy that is supposed to partially cover costs associated with being in an ECD facility. In 2025, an additional R10 billion was allocated for ECD over three years. There is an increase for the first time since 2019 to the ECD subsidy, from R17 to R24 per child per day. The number of children subsidised by state funding is set to expand from 800 000 to 1.5 million. While the enhanced financing to the ECD sector is a historic achievement in the ECD landscape, the full cost of providing quality ECD programmes is estimated to be at least R36 per day per child. When other sources of funding are not available, it is often women working in the ECD sector who end up subsidising the funding gap. Investment in ECD is seen as a triple impact area for spending. It remunerates and recognises the care work and teaching that is foundational to early learning, and acts as a platform for formal and informal job creation; it frees up time in the household for caregivers to participate in the labour force if they choose to do so; and it meets a social need by improving educational outcomes in the long-term. Access to ECD learning is therefore an important source of empowerment not only for children, but also for households and the state.

The Grant-in-Aid is an additional transfer for grant recipients who need full-time care. Only 1 in 25 older persons receives the grant-in-aid.⁸⁵ While this cash transfer does compensate for care work within a household, uptake is exceptionally low due to lack of awareness, stringent eligibility criteria, and administrative hurdles in both the application process and with payments. Research has found that in order to receive the grant, one is expected to navigate five government/private institutions at a cost of R600 and 35 hours, in order to get the right documentation for the application to be processed.⁸⁶

While there are cash transfers that partially and minimally address the needed compensation of care work, there are particular types of public service jobs where women are disproportionately represented in the underpaid care sector. This includes jobs in ECD, home-based care and community health, and the National School Nutrition Programme (NSNP). Payments are often inadequate and infrequent, placing care workers into precarious employment. In some cases, such as with food handlers under

the NSNP, workers are deemed voluntary, meaning that low stipends rather than salaries are provided with very little job security.

The Unemployment Insurance Fund provides benefits for maternity leave, but in order to gain access to the fund, one needs to be registered for UIF. The majority of precarious workers are therefore excluded from maternity and parental leave benefits. Non-compliance with UIF from the employer can also exacerbate the problem with accessing UIF benefits.

Austerity also impacts social infrastructure. Accessing sufficient free basic services in South Africa is often fraught with challenges. While more reliable data is needed on how a lack of public infrastructure for free basic services translates into a gendered division of labour, the relationship between time-use and poverty is an important component of how unpaid care work is viewed in the South African context. In South Africa, austerity has deepened the crisis of social reproduction.

“The system thus can only survive if workers’ lives are reproduced continuously and reliably while being replaced generationally. Food, housing, public transport, public schools and hospitals are all ingredients of life making that socially reproduce workers and their families... all care work is devalued or unpaid under capitalism while institutions of life making such as schools and hospitals are either constantly privatized or underfunded.”⁸⁷

There are gaps in coverage and support for both the unpaid and underpaid economies in South Africa. Relying solely on the social grant system to close gaps in compensating care work within a household individualises care work, and removes the role of the state and the community. A gender-responsive budgeting approach to the macroeconomic fiscal framework means orienting public finance in a way that meets everyone’s needs, including groups that have been systemically excluded.

CONCLUSION

This chapter has demonstrated that the prevailing narrative of an excessively large public sector is fundamentally at odds with the lived reality of South Africans struggling to access quality education, healthcare, and social protection. The trajectory of social spending in post-apartheid South Africa reveals a contradiction. The constitutional commitments to socio-economic rights and accompanying progressive policies are not resulting in addressing key problems of poverty, mass unemployment, and intractable inequality. There are always trade-offs in a world of finite resources, but the fiscal and economic approach pits social needs against each other, while claiming that we have reached the ceiling of the tax system.

As prior chapters have established, mechanisms for increasing fiscal space through progressive taxation exist. This chapter makes it clear that maximising tax progressivity is not merely a fiscal tool, but a fundamental obligation for bridging the gap between the underfunded budget and constitutionally-guaranteed rights.

In light of this, our key recommendations are:

GENERAL

1. Adopt an economic strategy that prioritises overcoming poverty, unemployment and inequality, rather than focusing on debt stabilisation and liberalisation as the primary goals.
2. Significantly expand public spending and fund this by increasing the progressivity of the tax system to meet societal needs and uphold constitutional obligations.
3. Abandon the full-cost recovery model, to ensure the adequate provision of free basic services such as safe and reliable water and electricity.

EDUCATION

1. Provide the funds required to cover the funding gap for Grade R.
2. Increase access to safe and dignified sanitation across schools.
3. Increase funding for school nutrition programmes, scholar transport and special needs schools.

HEALTH

1. End chronic underfunding in the sector.
2. Recruit health care workers to fill all vacant positions and create new positions required to provide effective service delivery.

AGRICULTURE

1. Ensure that safe and nutritious food is widely affordable and accessible; increase funding to support small-scale farmers and school and community feeding schemes.

SOCIAL PROTECTION

1. Expand the uptake of the grant-in-aid.
2. Increase the amount of the SRD grant and child support grants.
3. Transform the SRD grant into a universal basic income grant.

These recommendations are merely a starting point to address some of the current gaps in public expenditure.

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CONCLUSION

TAX AS A POLITICAL PROJECT

Our analysis shows that, despite the political complexities and historical inertia, there is still substantial scope for proactive reform within the existing tax framework. This report has offered detailed, actionable proposals designed to tackle South Africa's systemic challenges; specifically, the urgent need to raise greater revenue, aggressively decrease inequality, pivot capital towards productive investment, and curb the damaging effects of financialisation.

This report, working through the Fair Tax Monitor framework, has offered detailed, actionable proposals designed to tackle South Africa's systemic challenges; specifically, the urgent need to raise greater revenue, aggressively decrease inequality, pivot capital towards productive investment, and curb the damaging effects of financialisation.

Our analysis shows that, despite the political complexities and historical inertia, there is still substantial scope for proactive reform within the existing tax framework. A lot more work can be done to close key loopholes, and there are critical opportunities that can be leveraged to ensure that socioeconomic rights are realised in a gender responsive way.

However, the efficacy of tax reform cannot be viewed in isolation. We must acknowledge the fundamental limits of the tax framework itself. Tax policy is, at its core, a mechanism for redistributing resources and influencing behaviour, but it is not a panacea for deep-seated structural failings. The success of these proposals depends critically on broader solutions: redistributive public expenditure, improved state capacity, inclusive growth, “needs-based” industrialisation, and structural economic transformation. Without concurrent action in these areas, even the best tax system will be unable to bridge the chasm of inequality.

The debate around tax is as political as it is technical.

Crucially, the debate around tax is as political as it is technical. The policy proposals detailed here — who pays, how much, and what is taxed — are inherently political and ideological battlegrounds. Given the extent of competing needs in the country, there is a great demand for enhanced domestic resource mobilisation, and the tax system is pivotal for this approach. The implementation of many of these reforms requires not only legislative drafting, but a formidable degree of political will, public mobilisation, and a willingness to confront powerful vested interests. However, we recognise that not everyone will share our political and economic perspective. For this reason, we have tried to offer a menu of options for activists, reformers, and policymakers to consider. We hope that we have provided an analytical foundation which can be used to push for tangible changes to the tax system in the world's most unequal country.



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